

FINANCIAL TIMES



Europe's Business Newspaper

WEDNESDAY OCTOBER 27 1993

D8523A

Cost-cutting helps IBM to curb nine-month losses

Cost-cutting helped US computer giant IBM to lower than expected losses of \$48m for the third quarter, but chairman Lou Gerstner warned: "The company's cost and expense structure remain uncompetitive." He said IBM could become profitable again as its gross margins fell into line with those in the rest of the computer industry. Page 15

Israel plans deals with Arabs: Israel is negotiating multi-billion dollar energy projects with Arab partners and could soon sign a deal with Qatar to start work on a \$1.8bn natural gas scheme. Page 14

Union threat to spread Air France actions:



Air France pilots (above) joined a demonstration at Orly airport south of Paris as unions threatened to widen the action to other public sector groups. The strike has continued despite government concessions on an austerity plan for Air France. Yesterday a union leader said those concessions set a precedent and protests would now be launched against planned job cuts in other public sector concerns. Page 14; High flier takes control, Page 3

UN finds signs of Bosnia atrocities: UN peacekeepers entered the Muslim village of Stupni Do and found it destroyed. They said there was evidence that Croat forces committed atrocities. UN curbs aid, Page 3; No news is bad news, Page 12

Northern Ireland peace plan: British prime minister John Major and his Irish counterpart Albert Reynolds are to discuss a peace plan for Northern Ireland. Their Friday meeting was confirmed despite rising violence in Belfast since Saturday's terrorist bombing killed 10 people. Page 9

Gloomy report on UK industry: The Confederation of British Industry said that over the last four months manufacturing orders and output were flat, export orders fell, more jobs were lost and business confidence weakened. Page 9; Lex, Page 14

US consumer confidence fell in October: as consumers sharply lowered their expectations for the immediate future. The Conference Board Consumer Confidence Index was 59.4 compared with 63.8 in September.

Volvo: Swedish opposition is growing to Volvo's plan to merge its vehicle making with Renault of France. Page 15; Lex, Page 14

Substitute sought for Seat: The Spanish regional government of Catalonia promised Plafon (\$45m) in credits and guarantees to auto-parts suppliers willing to set up business on the site of Seat's apparently doomed plant in Barcelona.

Georgian town recaptured: Georgia said its troops had recaptured the strategically important town of Senaki from forces loyal to former president Zviad Gamsakhurdia. Picture, Page 4

Haiti's frightened parliament: failed to muster a quorum to consider a UN peace plan to return ousted president Jean-Bertrand Aristide to power because many senators were too scared to attend.

Den Norske Bank: Norway's biggest bank, moved out of the red with its best result since its formation from a 1990 merger of Den Norske Creditbank and Bergen Bank. Nine-month net profits of Nkr699m (\$100m) compared with a Nkr2.46bn loss a year earlier. Page 15

Hope for locust control: Scientists in Kenya have isolated chemicals which may influence whether desert locusts swarm and devastate crops. The chemicals make many locusts lay eggs at roughly the same time. This creates large numbers of insects which swarm in search of food. Page 24

Ivory cache uncovered: South African police seized illegal ivory worth \$300,000 and said they had broken a big Taiwanese smuggling ring.

Irish writer wins British prize: Dublin-born writer Roddy Doyle won Britain's £20,000 (\$30,000) 1993 Booker literary prize for his novel *Paddy Clarke Ha Ha Ha*.

STOCK MARKET INDICES			
FT-SE 100	3165.3	(-19.5)	
Yield	3.71		
FT-SE Eurostoxx 100	1377.18	(-1.58)	
FT-A All-Share	1584.82	(-0.54%)	
Nikkei	20,023.60	(-285.73)	
New York: S&P 500	3655.72	(-17.88)	
Dow Jones Ind Ave	3655.72	(-17.88)	
S&P Composite	482.98	(-1.22)	
US LUNCHTIME RATES			
Federal Funds	3.4%		
3-mo T-bill	3.127%		
Long Bond	10.3%		
Yield	8.0%		
LONDON MONEY			
3-mo Interbank	5%	(Same)	
Libor 6m	5.125%	(Dec 14/15)	
NORTH SEA OIL (Average)			
Brent 15-day (Dec)	\$16.3	(16.44)	
Oil			
New York: Crude (Dec)	\$27.0	(27.0)	
London	\$27.25	(27.17)	
Australia	\$20.00		
Bahrain	\$21.25		
Belgium	\$19.00		
Canada	\$22.00		
Denmark	\$20.00		
Egypt	\$24.00		
France	\$20.00		
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Yemen	\$20.00		
Zimbabwe	\$20.00		

Traditional parties suffer as Canadian voters seek political reforms

Chrétien vows national unity

By Bernard Simon in Toronto

MR Jean Chrétien, Canada's incoming prime minister, pledged yesterday to work for national unity in the wake of stunning gains by two fledgling and potentially divisive regional parties in Monday's general election. The election transformed Canada's political landscape like no other in its 126-year history. Mr Chrétien's Liberal party won a landslide victory, gaining 178 out of 296 seats in the House of Commons. But the strong performance by the two regional parties - the separatist Bloc Québécois, and the Reform party, whose main strength is in western Canada - could increase strains between English and French-speaking Canadians.

Two of Canada's traditional three national parties suffered devastating setbacks at the polls, as voters sought a change from the tough economic times of recent years. One political analyst estimated that at least 40 per cent of the electorate voted for a party which they had never before supported.

The Progressive Conservatives, who have held office since 1984, won only two seats, in spite of gaining 16 per cent of the popular vote. The Tory vote was split in many constituencies by Reform, allowing the Liberal candidate to come up the middle.

Ms Kim Campbell, who took over as Conservative leader and prime minister four months ago, was defeated in her Vancouver constituency. Under party rules, a new leadership convention must take place within a year. Ms Campbell is not expected to stand for re-election.

The BQ, which won 54 seats, will form the official opposition. Mr Lucien Bouchard, its leader,

Pages 6 and 7

■ Liberal party softens its approach to free trade
■ Tradition of give and take is swept away
■ Quebec 'headed towards freedom'
■ Bank supports Canadian \$
■ Growth prospects rise

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■ Editorial Comment

said in his victory speech that "the Bloc will be positive and responsible in parliament, while vigorously pursuing sovereignty for Quebec". He added: "we want to correct the inequities of the system to give Quebec a bigger slice of the pie."

The Reform party, which opposes official bilingualism and other concessions to Quebec, gained 52 seats, the bulk in Alberta and British Columbia. The left-of-centre New Democratic party held only eight of its 44 seats.

Mr Chrétien said he understood the frustrations which led voters to support the BQ and Reform. He pledged to "try to bring us together by appealing not to what divides us, but what unites us." The Liberals won seats in all 10 provinces.

Ms Campbell took office amid high hopes that she would be able to erase the unpopularity of Mr Brian Mulroney, her predecessor, but her intelligence and glamour were offset by political inexperience. While Ms Campbell emphasised the painful message of deficit reduction on the cam-



Triumphant: Incoming Canadian prime minister Jean Chrétien, with his wife Aline alongside, waves to supporters after his Liberal party won a landslide victory in Monday's general election

aign stump, the experienced Mr Chrétien brought a more reassuring message of job creation.

Mr Chrétien is expected to visit Washington within the next few months to discuss the future of the North American free trade agreement with President Bill Clinton. The Liberals have pledged to try to renegotiate the accord. Most observers predict that a face-saving formula will

found to allow them to implement NAFTA as scheduled on January 1, provided it is approved by the US Congress next month.

In Washington Mr Clinton, who called Mr Chrétien to congratulate him, told reporters: "I see no reason to renegotiate the agreement... I think we should just go ahead. I think all the countries involved have a lot at stake in proceeding."

Mr Chrétien also promised that one of his first acts on taking office would be to cancel a C\$5.8m (\$4.3m) order for 50 military helicopters built by the UK's Westland Group and Agusta of Italy. The UK-Italian consortium, its local contractors and the Canadian military are lobbying to include the helicopter purchase in a wider review of defence policy.

Delors sets agenda for reducing jobless

By Lionel Barber and David Gardner in Luxembourg

MR Jacques Delors, European Commission president, said in Luxembourg yesterday he was convinced the EC could reduce mass unemployment, which is "paralyzing European societies".

This would be achieved through a mix of job-sharing, part-time work and wage flexibility, according to the latest draft of the white paper on competitiveness, growth and employment.

The Commission has set a target of creating 20m new jobs by the end of this decade, in its blueprint for tackling mass unemployment in Europe.

The white paper, which is

being co-ordinated by Mr Delors, will get its first real airing at this Friday's special EC summit in Brussels. The final version will be the centrepiece of December's meeting of EC leaders.

The creation of 20m jobs, to reduce current EC unemployment rates of 10.4 per cent to 5 per cent by the year 2000, would match the performance of the US economy in the 1980s. It implies annual growth rates between 3 and 3.5 per cent, levels which are not likely to start until 1995.

Mr Delors said in Luxembourg yesterday that he was convinced the EC could reduce mass unemployment, which was "paralyzing European societies".

"I have a lot of ideas in my head and I hope I can convince the heads of government," the Commission president said, a day after being rebuffed by EC finance ministers on his ideas for boosting economic growth.

The Commission draft calls for an overhaul of EC labour markets, and an increase in investment from 19 per cent to 23-24 per cent of Community GDP, a figure last seen in 1984-74.

"The slower expansion of private consumption would be the price to pay for increasing competitiveness, job creation, and therefore future prosperity," the draft says.

The Commission makes clear that it is not advocating EC-wide legislation. Reforms should be tailored to the specific needs of member states, but carried out

within a mutually reinforcing framework.

Among the chief recommendations of the draft white paper are:

● New incentives for part-time work. This would reduce the average hours worked and allow the number of jobs to increase.

● Greater wage flexibility, including possible dilution of minimum wage legislation.

● Employment costs. The paper says labour should not be taxed more heavily than capital, and calls for a progressive reduction in non-wage costs for lower-skilled jobs.

● Taxes on pollution and energy to compensate for revenue losses as a result of the reduction in employment costs.

Growth figure rejected, Page 2

Ferranti in talks with secret bidder at token 1p a share

By Our Industrial Staff

THE CURTAIN began to fall yesterday on one of the most distinguished names in British industry. Ferranti, the deeply troubled UK electronics company, announced it was in talks with an unnamed bidder at a token 1p a share, a bid which would signal the end of independence for the company and value it at a mere £9.7m (\$14.6m).

This compares with a peak value of £245m in early 1989, just before a disastrous \$1.1bn fraud was uncovered at its US subsidiary International Signal and Control (ISC).

Founded at the end of the last century by Liverpool-born Sebastian Ziani de Ferranti, the company became a flagship of UK technology. It was a pioneer in semiconductors, developing the first European microprocessor in the 1970s. Its computer division, now part of Fujitsu of Japan, developed a scientific computer which was competitive with the largest IBM machines. In the

The declining fortunes of Ferranti... Page 21
Lex... Page 14

early 1990s it was one of the pioneers of numerical control for machine tools, a field now dominated by Japan, Germany and the US.

Speculation on the unnamed bidder focused yesterday on rival defence companies, since two-thirds of Ferranti's business consists of defence work. GEC, which bought large parts of Ferranti's defence business after the ISC fraud, refused to comment.

Ferranti emphasised that while it was in discussions, there was no certainty of an offer being made. Earlier this month it was obliged by law to call an extraordinary meeting of shareholders, since mounting losses meant its

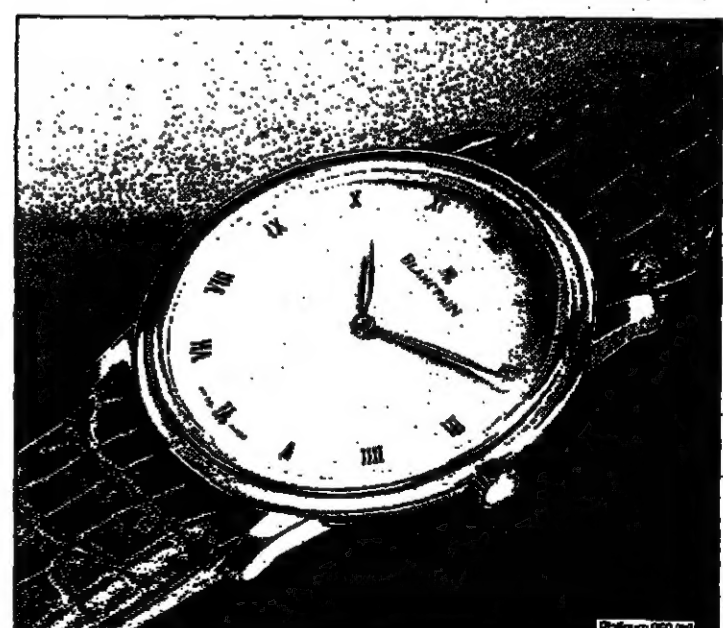
net worth had fallen to less than half its share capital. Mr Eugene Anderson, chairman, told shareholders he would seek to strengthen the balance sheet through equity injection or strategic partnership.

The indicated price of 1p per share took the stock market by surprise yesterday. The shares had started the day at 9.25p, and they closed at 2.5p in heavy trading.

The company's likely loss of independence is chiefly attributable to the fraud at ISC, whose head Mr James Guerin received a 15-year jail sentence last year. However, it had also been criticised for poor management and loss of direction. A City of London analyst said last night: "ISC was a body blow to a company which looked dodgy already. It hadn't moved with the times."

Ferranti has recently been struggling to land defence contracts, both in the UK and the Middle East. It said last night that one large contract with Bahrain was still under discussion.

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NEWS: EUROPE

Defenders of Emu deploy their forces

By Andrew Hill in Brussels

THE Belgian presidency of the EC, Mr Jacques Delors, Commission president, and European Community employers, yesterday threw their weight behind existing plans for economic and monetary union.

Mr Philippe Maystadt, Belgian finance minister, said the European Monetary Institute - forerunner of a European central bank - should play a forceful role in preparing for a single currency by 1999.

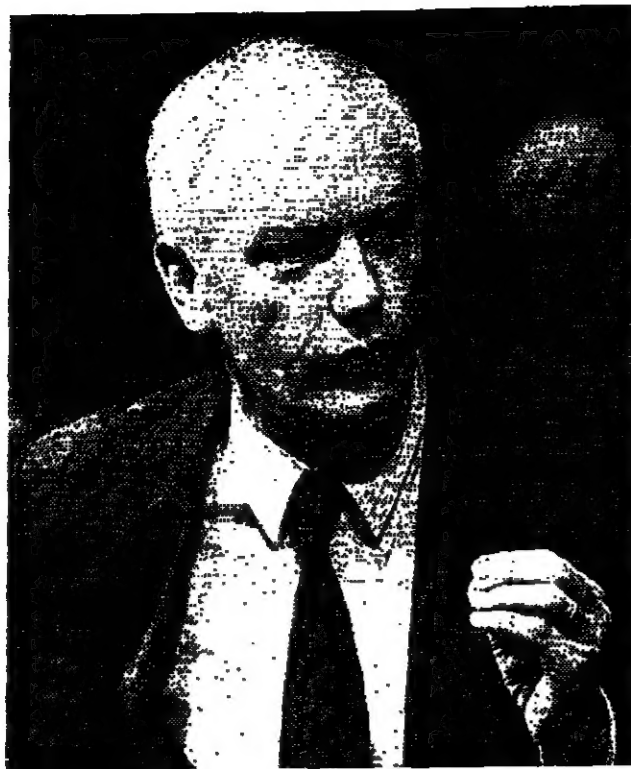
The EMI will begin its work on January 1, 1994, provided EC leaders can decide on a site for the institution at their summit in Brussels on Friday.

Mr Delors also stressed the importance of the EMI objectives, and the role of the EMI.

The currency turmoil of the last year has left the European monetary system in disarray and recession has raised doubts about the original plans for economic union. Mr John Major, the British prime minister, recently dismissed the timetable for a single currency as "folly".

But Mr Maystadt, one of the EC's longest-serving finance ministers, said yesterday that the Maastricht deadline of 1999 for monetary union was still feasible, even if the more ambitious target of 1997 would be difficult to achieve because of the EC's economic problems.

In an interview with the Financial Times, Mr Maystadt also defended the nomination of Mr Alexandre Lamfalussy as the first president of the EMI. The choice should be confirmed by EC leaders on Friday, Mr Maystadt said. Mr Lamfalussy, Belgian general manager of the Bank for International Settlements in Basel, would give a new impetus to



Maystadt believes deadline for monetary union is still feasible

the Maastricht aims. "We know that Mr Lamfalussy is really convinced of the need for Europe to go to a single currency; he's a true believer in the single currency and that's not the case with all the bank governors."

He said the EMI would be "a more permanent and more objective supervisory body for the European monetary system" than existing inter-governmental bodies like the secretariat of the EC monetary committee. Unice, which represents EC employers' federations, also called for EC leaders to refocus on the Emu objectives. "We think that the single market without a stable monetary relationship will be very difficult to sustain," said Mr Carlos Ferrer, Unice's president.

EC growth figure rejected

By Peter Norman, Economics Editor

THE suggestion by Mr Henning Christophersen, the European Community's economic affairs commissioner, of 2 per cent growth in the EC next year was branded as over-optimistic by private sector economists yesterday amid signs that it is incompatible with the latest internal EC commission forecasts.

On Monday, Mr Christophersen told journalists at the EC finance ministers' meeting in Luxembourg that EC-wide growth could be between 1.5 per cent and 2 per cent next year if the latest German growth forecasts turned out to be accurate.

However, it emerged while Mr Christophersen was making his prediction that commission forecasters in Brussels were starting a two-day meeting with colleagues from EC member states armed with internal commission forecasts pointing to less than 1 per cent EC-wide growth in 1994.

Mr Christophersen appeared to base his remarks on projections by five of Germany's six leading economic research institutes forecasting 1.5 per cent growth in Germany next year. Such a growth rate would boost EC-wide economic growth by about 0.45 per cent.

But, according to EC officials, the commissioner seemed not to take into account internal commission forecasts that have downgraded 1994 growth from 1.5 per cent published in June to less than 1 per cent. While this week's forecasters' meeting might lead to an upgrading of the commission forecast, past experience suggests that any change would be small and typically around 0.2 percentage points.

Mr Christophersen's suggestion that growth could reach 2 per cent surprised EC finance ministers yesterday because he had not mentioned it during Monday's meeting. Private sector economists also doubted whether his upbeat forecast was soundly based.

Mr George Magnus, international economist of S G Warburg Securities in London, said Mr Christophersen's forecast was "wishful thinking" and that 1 per cent EC growth "was just about achievable". Mr Martin Hüfner, chief economist of Bayerische Vereinsbank in Munich, said 2 per cent growth "looked very optimistic".

The German growth forecasts on which Mr Christophersen based his remarks are contentious. They were rejected by one of the six German institutes and criticised by the association of German private banks as being too optimistic.



Christophersen: economists said his forecast was over-optimistic

Sixteen divides Twelve Some Nordic and Alpine fresh air

By David Gardner in Luxembourg

EFFORTS by the Belgian presidency of the EC to keep a potentially damaging row over the relative voting power of big and small Community states out of this Friday's Brussels summit looked yesterday as though they might have failed.

A discussion by foreign ministers of the Twelve on how to adjust the EC's institutional arrangements to accommodate four small countries negotiating entry into the EC by 1995 - Austria, Finland, Sweden and Norway - ended in a stand-off between the big and small member states.

Germany, the UK, France and Spain are looking to adjust the qualified, or weighted, majority voting system, to

ensure they and their likely allies will continue to be able to block unpalatable legislation, after the Twelve become the Sixteen. They also want to ensure that the six-monthly rotation of the EC presidency, now alphabetical, will always ensure that a European power is involved in EC foreign policy, by adjusting the "troika" system of representation through the current, preceding and succeeding presidencies.

All the small member states said yesterday that institutional changes should wait until after enlargement, and be dealt with at the EC's next constitutional review in 1996. A debate now would "fuel divisions in the EC which we do not need at this juncture", said Mr Dick Spring, Irish foreign minister. Others said any

appearance of rewriting the rules to favour larger states could sink the enlargement negotiations. "This is a stand-off," said a diplomat from one small member state. "At the end of the day we are going to have to decide do we want enlargement or do we want institutional reform."

But Mr Douglas Hurd, UK foreign secretary, stressed: "It is in the interests of Great Britain that there should be an adequate system of blocking minority (voting) after the entry of the new members."

The UK, Germany, France and Spain, acknowledged that it was a very sensitive issue, but said that although the Belgian presidency was refusing to put it on the summit agenda, it would almost certainly come up in discussions.

Brussels summit will take heart from progress on enlargement, writes David Gardner

AT THEIR summit in Brussels on Friday, a rather battered collection of EC leaders will not only be able to cheer themselves that the Maastricht treaty is now ratified, but take heart too that there are at last signs of progress on bringing four Nordic and Alpine countries into the Community by 1995.

Amid doubts over the viability of monetary union, the growing jobs crisis and Europe's failure to bring peace to Bosnia, enlargement to bring in Austria, Sweden, Finland and Norway is a comfortingly solid goal for the Community to set course for.

It has not often seemed that way since the glacially slow

negotiations started with these members of the loose European Free Trade Association (EFTA) in February. The summit is set to force the pace of the talks, possibly acting on a German proposal made yesterday to hold more regular ministerial negotiations between the Twelve and the Four.

On Friday, nonetheless, the European Commission should be able to report to the summit that most of the candidate countries' legislation has been argued into compatibility with the EC's single market, and that the Twelve and the Four have taken big strides in aligning health and safety and veterinary standards and indirect taxation.

What is more important, the Commission can at last point to the first signs of progress on the inclusion of the enlargement talks: the compatibility of the (often higher) environmental standards of the applicants, and how to pay for their (much higher) agricultural and regional subsidy regimes. All four applicants will hold a referendum on EC accession, and need to convince their increasingly Euro-sceptical peoples that the Community represents no threat to the quality of their lives and their very "green" identities.

Environmental issues, according to an internal Commission document, "may prove to be decisive for the successful conclusion of the enlargement exercise". All four applicant governments fear a No vote if the EC is seen to be diluting what they consider higher standards in order to safeguard border-free trade.

The Brussels enlargement task force has thus evolved a three-tier approach, so far well-received by the applicants. Where standards are equivalent, if different, such as on car emission limits, the EC should refuse to bridge. Where the EC has set target dates for raised standards, for example on safety belts, applicants would get transitional exemptions. On the trickiest issues, for instance health labelling on products or use of certain pesticides, the EC is proposing to grant transitional exemptions with a review after three years, when applicants should be in the EC and taking part in amending the legislation.

The psychology of this

approach is as important as the details, given attitudes prevalent in applicant countries that entry is all right just so long as it is the EC which is joining them. "It is not nationalistic," one senior Commission negotiator remarks archly, "that it sounds like they're pulling us up to their standards."

But the Commission is ada-

'As far as the EC regional funding goes, they don't need electricity and roads. Their abattoirs are better than our houses. It's better to be a cow up there.'

mant that the new member states will not be allowed to use border controls to keep EC products out for environmental reasons. The issue has not been decided, but the enlargement negotiators view any such dilution of the single market with horror.

"If you accept border controls for agriculture it's hard to stop them being used for other purposes," one senior official says. "We wouldn't get free competition in their markets." The careful compromises emerging on environment and health and safety standards, moreover, could be unravelled by border controls, he adds.

The solution he advocates is direct income compensation to farmers in the four countries, which would cost an estimated Ecu2.2bn (£1.7bn) a year. The

differences to be ironed out in this case range from farm price subsidies which are 25 per cent higher than the EC's in Austria to 100 per cent higher in Norway - by because of the single market there will be no borders at which to do the levying.

Some Commission agricultural and customs regime officials are arguing that the new

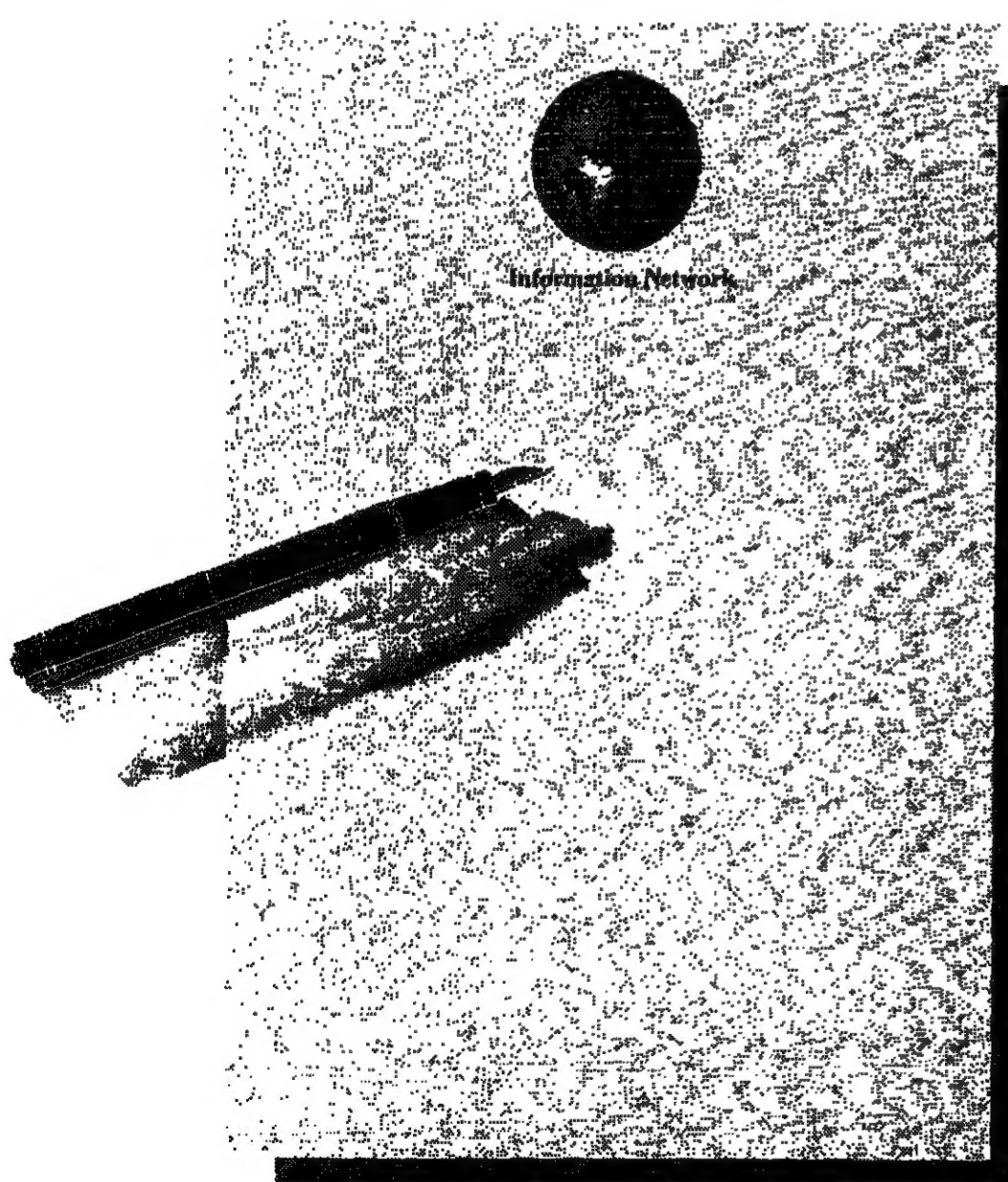
net contributions to the EC budget the Four are expected to make would be around double this.

The next stage of the argument would therefore be how to share out the cost of the compensation, and how to finance lavish regional subsidies, which in the Nordic countries are linked to concerns for the security of their empty northern territories.

EC regional policy, geared to helping backward and industrially stricken areas, does not really measure up to northern Nordic needs. "They don't need electricity and roads. Their abattoirs are better than our houses," says one negotiator. "It's better to be a cow up there." Again, an income support scheme linked to differences between regions is being looked at.

But even if the way forward is now in view, there is still a lot to negotiate: Norwegian determination to retain full control over its energy and fisheries resources; the voting weight and representation these four small countries would get inside EC institutions, at a time when the UK, France, Germany and Spain are seeking to increase big countries' influence; and how the Four, all except Norway formally neutral, would fit into the Maastricht treaty's foreign and security policy.

On Friday they will be looking for clear signs that the 12 want to find a way through the thicket.



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EC summit faces disruption Strike called over Belgian austerity plan

By Andrew Hill in Brussels

BELGIUM'S Socialist trade unions yesterday called for a one-day public transport strike on Friday to protest against the government's proposed austerity package.

The day of the strike coincides with the summit of European Community leaders in Brussels, which as a result will face disruption from traffic chaos, stoppages and demonstrations.

Last week, the Socialist unions walked out of talks with government and employers on how to solve the problems of lack of competitiveness, unemployment and a growing social security deficit.

Yesterday, Mr Jean-Luc Dehaene, prime minister, unveiled outline measures which the country's centre-left coalition will now try to push through on its own. The task is particularly delicate because there are doubts whether the French-speaking Socialist members of the coalition will support proposals opposed by the unions.

The unions are angry about plans to limit wage costs. Mr

Dehaene has suggested freezing pay and delaying the impact of salary increases for 1994 which have already been agreed with employers.

Senior Belgian government officials said yesterday that the package of measures would try to achieve the same aims as last week's failed talks, but without inflaming the unions and risking the collapse of the coalition.

A statement issued after yesterday's cabinet discussion of the package tried to reassure the unions by promising that the government would concentrate on improving employment. But Mr Dehaene warned at a news conference that some form of wage restraint would almost certainly have to be included in the final measures.

Mr Dehaene, who will chair Friday's EC summit, will start talks on the details of the measures with his coalition partners on Saturday morning.

Officials admitted yesterday that the failure to agree a framework deal with the unions and the employers would make the task much more difficult.

High flier takes control of grounded airline

Air France's new chief has plenty of experience of militant opposition at home and abroad, writes John Ridding



Christian Blanc: useful cards up his sleeve

Mr Christian Blanc, due to be officially confirmed today as the head of Air France, has clashed with striking workers on the Paris underground and dealt with militant separatists in an overseas colony. But he may still be forgiven for having qualms about his new challenge.

He takes over the loss-making airline when it is mired in a bitter industrial dispute. His predecessor, Mr Bernard Attali, was undermined by the French government which decided to scrap a recovery plan he deemed essential for the airline's survival. Mr Blanc now has three months to draw up a new package to restore health to the airline and resolve the strikes which have paralysed the state-owned national carrier.

It is hardly an enticing prospect. The strength of union opposition to restructuring measures was clearly illustrated yesterday in a show of force, dubbed "Black Tuesday" by the French press, which saw the airline's operations halted by co-ordinated action by groundstaff, airport workers, pilots, cabin staff and union members at Air France's domestic airline subsidiary.

Mr Blanc, however, has some useful cards up his sleeve. As former head of RATP, the Paris bus and metro operator, he has experience of managing a public sector group and of implementing reforms in the face of powerful union opposition.

During his tenure at RATP, between 1989 and 1992, Mr Blanc succeeded in decentralising the group's operations, reducing the number of management layers from seven to three, and rationalising pay scales, a particularly sensitive issue for the unions.

But he also experienced the risks of reform. In 1992 he was faced with a strike by workers on the Paris metro as a result of his attempts to guarantee a minimum level of service during industrial disputes and to reduce pay for striking employees. After failing to win support from the Socialist government, he resigned.

"The experience of the strike of 1992 shows two things about Mr Blanc," says one executive at RATP. "He is determined to introduce management reforms and he will not compromise."

Another former colleague says he is likely to have demanded a free hand in managing Air France. But this may

be a tall order, particularly in the light of Mr Attali's sudden loss of government support.

If RATP was a turbulent period for Mr Blanc, it was peaceful compared with his previous challenge in New Caledonia. In 1988, he was appointed by Mr Michel Rocard, then Socialist prime minister, as head of a mission to resolve a conflict sparked by an independence movement in the South Pacific colony. The mission played a large part in the conclusion of the Matignon Accords which defused the dispute and represented one of the successes of the Rocard administration.

Mr Blanc's achievement in New Caledonia and his stint at RATP should provide valuable experience at Air France. So, too should his political contacts.

As a close friend of Mr Rocard, now the leader of the Socialist party, it may appear curious that he has been picked by Mr Edouard Balladur's centre-right government to resolve its first serious industrial dispute.

His reputation as a tough negotiator is the most important explanation. His left-wing credentials might also help in negotiations with the

hitherto implacable strikers.

Mr Blanc should not, however, take this for granted. Mr Louis Vianet, general secretary of the Confédération Générale du Travail, one of the union groups spearheading the protests at the national carrier, issued a stern warning yesterday. "Mr Blanc should not try to do at Air France what he sought to do at RATP," said Mr Vianet in a radio interview. He said the Air France chief should take into account the "errors that have been made" at the airline and should discuss fully with the unions any measures he plans to take.

That leaves Mr Blanc in a difficult position. The government, despite its climbdown, still says it wants to implement the 4,000 job cuts envisaged in Mr Attali's plan, although it has said the cuts can be achieved without forced redundancies. The airline, which is forecast to lose more than FF15bn (£580m) this year, remains in urgent need of restructuring.

Mr Blanc's first three months - the time the government allowed for a new recovery plan to be drawn up - are therefore likely to represent the sternest test of his negotiating skills.

Tapie to resign at football club

By Alice Hewitson in Paris

MR BERNARD TAPIE, the controversial French politician and businessman, yesterday announced that he plans soon to resign as chairman of Olympique-Marseille (O-M), the scandal-ridden football club.

He broke the news in an interview with L'Equipe, the sports newspaper, adding that his position at O-M was incompatible with his political ambitions.

Mr Tapie, who has a seat in parliament as an independent Socialist and had a short stint as urban affairs minister in the last Socialist government, plans to lead a group of left-wing radicals in next June's European elections. He is also expected to stand as mayor of Marseille in the next general election.

However, Mr Tapie, who took over O-M in 1986 and has since invested around

FFr130m (£15m) in the club to turn it into France's top team, said he had not yet finalised plans for his departure.

He is famous in France for his temperamental approach to business affairs and earlier this month vowed publicly that he would stay at O-M.

He told L'Equipe he had already "made contact" with prospective investors in the Marseille team. He had received inquiries from "a big furniture manufacturer, an upmarket jeweller and a department store chain".

O-M is struggling to stabilise its finances following its ban from this season's European Cup, which it won last spring - the first French club to do so. It has since been sullied by the scandal over allegations that its officials tried to bribe players from another French team to rig one of last season's league games.

UN curbs Bosnia aid until safety guarantees given

By Laura Silber in Belgrade and Reuters in Luxembourg

THE United Nations yesterday suspended delivery of emergency aid to more than 1m people stranded in central Bosnia until warring Croat and Muslim forces guarantee the safety of relief workers.

Mr Boutros Boutros Ghali, the UN secretary general, took the decision after UN convoys on Monday were hit by machine gun and mortar fire, killing a Danish-kerry driver and wounding nine UN workers.

Lord Owen, the European Community's peace mediator, said in Luxembourg yesterday he was sceptical about being able to get supplies through to people as winter approached. He was addressing EC foreign ministers.

The UN High Commissioner for Refugees said yesterday that the area under suspension included Mostar in the south-west, and towns in central Bosnia where Croats and Muslims were fighting. Ms Sylvia Foa, spokeswoman of the UNHCR said operations would

get under way once the parties gave credible guarantees for safe passage.

The decision to suspend some aid convoys would make it extremely difficult for people in some areas such as Mostar, where others would still get help, Lord Owen said.

Lord Owen said the idea of creating a "safe route" from the Adriatic coast to Sarajevo was being considered, but he pointed to enormous problems with using force.

Mr François Mitterrand, the French president, called on Monday for help, including US military protection, to force open roads to Sarajevo.

Meanwhile, commanders of the mainly Muslim Bosnian army yesterday moved to reassert control over their forces in Sarajevo, announcing a crackdown on soldiers believed to be involved in black-marketeering and theft.

Two commanders were being sought, Radio Sarajevo said yesterday, although there was no confirmation that they had been arrested along with 302 members of the two brigades.

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NEWS: EUROPE

SPD rejects plans for new generation of extra-safe reactors

Doubts over German nuclear industry

By Quentin Peel in Bonn

GERMANY'S opposition Social Democrats yesterday rejected plans to allow development of a new generation of extra-safe nuclear reactors in the country, throwing into doubt the future of the German nuclear industry. The decision by the national executive of the SPD was immediately condemned by leaders of the ruling coalition as undermining the fundamental development prospects of the German economy.

It throws into doubt the year-long efforts to negotiate a cross-party "energy consensus" intended to provide a clear framework for the investment plans of the energy industry,

including both domestic coal mining and nuclear power.

It also calls into question the long-term future of the German coal mining industry, which has survived so far on a mixture of direct subsidy paid by electricity consumers, and cross-subsidies from nuclear power paid by the electricity generators.

The SPD, which controls the governments of several key states in the federal republic where nuclear plants operate, also declared its determination to switch from reprocessing nuclear waste - in Britain and France - to direct disposal.

However, the party leadership has left open the question of how long the present generation of nuclear plants may be allowed to operate, thus giving Germany's electricity generators a chance to plan the gradual abandonment of nuclear energy. It also set no timescale for the switch from reprocessing to direct disposal, for which there are no sites currently available in Germany.

The SPD decision was announced yesterday after an extended meeting of the party's national executive rejected a compromise plan put forward by Mr Gerhard Schröder, the prime minister of the state of Lower Saxony.

The plan would have allowed a continuing "nuclear option" by sanctioning the construction of a prototype extra-safe

nuclear reactor, designed to contain the risks of any future nuclear accident within the plant. Instead, the party leaders insisted on their existing policy of completely abandoning nuclear power.

The decision amounts to a severe blow to Germany's nuclear power plant manufacturers, led by Siemens KWU, but a compromise with which the two main electricity generators - RWE and Veba - can live. The third main power generator, the Munich-based Bayernwerk, is heavily committed to nuclear energy, and therefore strongly opposed to any non-nuclear option.

Without a cross-party compromise on energy, the power

generators say they have no clear framework for their long-term power station planning. Government officials warned yesterday that the SPD decision now calls that energy consensus into doubt.

Mr Klaus Töpfer, the environment minister, who negotiated the compromise with Mr Schröder, expressed his regret at the SPD decision. "I cannot see how, under these circumstances, a energy consensus can still be achieved," he said. Negotiations scheduled for tonight will still go ahead, he said. "Failure of the talks would be a bitter setback for Germany's economic base, for which the SPD would be responsible."

Russia ploughs a new furrow down on farm Centrist party to mount challenge

By Gillian Tett, recently in Nizhny Novgorod, Russia

MR YEVGENY Mikhayev, director of the Niva farm near Nizhny Novgorod, flung open the door of a cowshed and declared: "We need reform to make this farm work. We have to get rid of the layabouts and the drunks." It is a sentiment that could prove important, not just around Nizhny Novgorod, but across Russia.

Yesterday in Moscow, Mr Yegor Gaidar, first deputy prime minister, together with the International Finance Corporation, the World Bank's private sector arm, unveiled an agricultural reform programme designed to break up Russia's vast state system.

And as Niva is one of six farms to pilot the scheme, the fate of its reforms is likely to be a crucial test, as Russia tackles the sector of its economy most resistant to change. Mr Gaidar said a policy to redistribute agricultural land should be introduced across Russia, supported by a decree - expected to be signed this week by President Boris Yeltsin - revoking an effective ban on the sale of land, paving the way for mortgages, leasing and trading. The moratorium on sales or leases has been a key factor blocking real change.

The Russian government has introduced some reforms in the past two years, creating a new class of "private" farmers, and forcing the state farms to register as independent "companies", but the impact has been limited. Private farmers still control less than 4 per cent of registered farm land and the "reorganisation" of the state farms, which control more than 90 per cent of land, has largely been theoretical.

But though the need for market reforms is clear, the strong collective traditions of the Russian farmers have left the reformers facing a serious logistical problem: how do you break up huge farms in a manner that seems equitable, without creating unworkably small plots of land?

The solution that the IFC and Nizhny Novgorod leaders proposed to the villagers in Niva last weekend is based around two key concepts.

The first is a land and property certificate, an elegant piece of paper awarding each member of the farm a share of the land and property. Although the land is divided equally the property shares are graded by job and age.

The second key concept is an "auction", which determines which farmers get which pieces of land. Although the IFC hopes that in most cases this will be decided by mutual agreement, competing demands will be decided by an auction, using the property certificates to "bid" for disputed pieces of land.

Mr Viktor Khlystun, agriculture minister, stressed yesterday that there would be some limits on the sales. Outsiders - and by implication, foreigners - would not be allowed to buy land at the expense of local villagers, since "it would be wrong for a citizen to acquire land to hire labour", he said.

The type of farm which will emerge from this scheme is deliberately left unclear. The crucial aspect is that the scheme allows farmers to trade, sell or lease their certificates. Thus they can farm alone, join together in a collective, or even "sell" their land to a individual in the village.

As Mr Boris Nemtsov, reformist governor of Nizhny Novgorod, explains: "The essence of this is choice." Whether the villagers themselves want it is unclear. At the meeting in Niva to hand out certificates, opinions varied sharply. Although Mr Mikhayev is enthusiastic and some villagers are vowing to go it alone, others angrily supported the old system; many more seemed simply confused.

Ultimately, the scheme's success will depend on how many other farm directors like Mr Mikhayev can be found, and how far they can persuade the rest of the farmers to follow them.

By Layla Boulton in Moscow

MR ARKADY VOISKY, head of Russia's Union of Industrialists and Entrepreneurs, announced yesterday he would head a revived "centrist" alliance in the country's parliamentary elections.

The party, to be called Civic Union for Stability, Justice and Progress, represents a powerful new force to challenge the main government-sponsored alliance, Russia's Choice.

It is promising both to promote free enterprise and to increase the "manageability" of the state-owned economy.

Other candidates on the party's electoral list include leading industrialists such as Mr Nikolai Bekh, head of Kamaz, the country's biggest truck manufacturer.

According to the party's programme released yesterday, Russia's problems stem not from enemies within, but from "stupidity, incompetence and dishonesty" at the top.

For this reason, Mr Volsky said, it could co-operate with forces as varied as the Agrarian party, which represents the state farm lobby, and Mr Grigory Yevlinsky, the prominent economist, who wants more effective economic reform and a strong federal state.

He suggested that his group might even endorse Mr Viktor Chernomyrdin, the prime minister, who was being shunned by radicals in Russia's Choice. Meanwhile, in a further attempt to distance himself from the cabinet, Mr Sergei Shakhrai, deputy prime minister and head of the Russian Unity and Accord party, said yesterday he was giving up his government salary. He also attacked the government's privatisation programme.

Mr Volsky's new party title, replacing the shorter Civic Union, is an attempt to shake off previous associations with disgraced former vice-president, Mr Alexander Rutskoi, one of the leaders of the recent parliamentary rebellion.

NEWS IN BRIEF

Taxing times for Italian workers

SALARIED workers in Italy declare higher average earnings and pay more taxes than businessmen, writes Robert Graham in Rome. This trend, long suspected by the tax authorities, has been confirmed by finance ministry research.

It is based on 1990 returns of 28.6m Italians and was undertaken following the discovery by tax inspectors on random assessments that employers were on occasions declaring earnings three times less than that of their employees.

Analysis of returns also produced the extraordinary finding that almost 40 per cent of the 340,000 businesses subject to corporation tax had avoided payment. This was because they either declared earnings below the taxable minimum or reported losses.

Sicilian bank chief quits

Mr Guido Savignone, chairman of the Banco di Sicilia, the island's leading financial institution, has resigned following sharp criticism of the management by the Italian Treasury, writes Robert Graham.

The attack on the failure of management to improve results after a shake-up two years ago represents a significant toughening in the authorities' attitudes towards financial institutions in which the state has stakes. The Treasury has 14 per cent of Banco di Sicilia, the remainder being held by a foundation controlled by the regional government. The bank is understood to have just balanced its books in 1992 but risks a loss this year. Some L3,000bn (£1.24bn) of bad loans are reported.

Mielke jailed for Weimar crimes

A Berlin court yesterday sentenced Erick Mielke (85), former chief of the hated secret police in Communist East Germany, to six years in prison for two murders committed in the Weimar republic six decades ago, writes Ariane Genillard in Bonn. He also faces charges of abusing human rights during the Communist era, including the killing of people crossing the Berlin wall.



Georgian troops enter the town of Abasha yesterday, repulsing the forces of ousted President Zviad Gamsakhurdia from much of western Georgia

Mitsotakis quits as party chief

By Kerin Hope in Athens

MR Constantine Mitsotakis, the Greek prime minister defeated by the socialists in this month's general election, resigned yesterday as leader of the conservative New Democracy party.

Mr Mitsotakis, 75, is the first

of Greece's veteran political leaders collectively dubbed the "dinosaurs" to make way for a younger successor.

Four former cabinet ministers have declared themselves candidates for the leadership. Mr Mitsotakis announced he would step down two weeks ago, when Mr Andreas Papan-

dreou's Panhellenic Socialist Movement won the election by a larger margin than had been expected.

Frontrunner in the leadership contest is Mr Miltiades Evert, 54, who has opposed the conservatives' privatisation policy. The new party leader will be elected next week.

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Tokyo's proposals will not necessarily clear way into public procurement market

Uphill task to win building orders

By Michio Nakamoto in Tokyo

THE Japanese government's proposals to open up the construction market to foreign companies may appear to be a step forward, but it is likely to take more than the formal blessings of Japanese officials for foreign companies to win a greater share of Japan's public procurement construction market.

"If a foreign company really wants to participate in the market they will benefit from the new proposals," says Mr. Akira Rokuhara, executive director of the Research Institute of Construction and Econ-

omy, a private institute. He believes they will be able to win contracts in these areas.

For a foreign construction company to do business as a general contractor in Japan, recruiting the large numbers of experts they would need to undertake general contracting work is no easy task.

Such experts are only available at the established Japanese construction companies and without such a skilled workforce with knowledge of the Japanese industry, foreign companies are likely to find it extremely difficult to carry out general contracting work.

Meanwhile, the options of acquiring a Japanese company

or forming a joint venture with one, providing foreign companies with access to a skilled workforce, are also limited, says Mr. Peter Hedges, chief representative of Trailgar House Corporate Development Tokyo.

"There is a natural inertia and unwillingness to change, unless these companies are being pushed hard by price and political pressure," they are generally unwilling to enter joint ventures meaningfully for the foreign partner, he points out.

If the experience of foreign companies in other Japanese markets are any guide, it will also take foreign companies

considerable time to build up a reputation for reliability which, in Japan, often counts for more than price competitiveness in winning business. "Since we use taxpayers' money we must be sure the company is reliable," an official at the Ministry of Construction explains, in defending the Japanese system of awarding contracts to designated bidders. "If bids are opened to any company, the danger exists that the work will be of bad quality. There is a trade-off between transparency and reliability."

Mr. Rokuhara points out that in construction it is not possible easily to compare the end

products, as it is in electronics. So a lot depends on whether or not a company is reliable.

But, while the government's new guidelines call for "objective, transparent and publicly stated criteria" in determining a company's reliability, in Japan reliability is more often judged by local reputation than objective standards.

US computer companies, for example, in spite of pre-eminence in world markets, face an uphill struggle in the Japanese public procurement market, like many others the target of US criticism, is built on a network of relationships developed over a long time.

Another brewer to join China beer rush

US demands could hurt rival exporters

By Eniko Tarazona in Tokyo

KIRIN Brewery, Japan's largest beer maker, is planning to form a beer production joint venture in China with a Chinese beer-maker based in Dalian and a Hong Kong trading company.

The move follows a rush of leading foreign beer companies into China's beer market. Anheuser-Busch, the US producer of Budweiser, bought 5 per cent of Tsingtao Beer last June, while Carlsberg of Denmark is operating a local production line. Suntory, another Japanese beverage maker, invested in a joint venture in Liangyungang in 1994.

China produces an annual 15m kilolitres of beer, and is the world's third largest beer market following the US and Germany.

Kirin said it was still negotiating with Dalian Bohai Brewery and Van Yu Trading of Hong Kong, but it planned to invest \$2m in beer lines with production capacity of up to 60,000 kilolitres.

Kirin will also provide quality control and other production technology.

By Michio Nakamoto

THE US is pressing Japan to make firm commitments to boost imports of US goods, potentially discriminating against European and other exporters to Japan.

The US request, in the form of a written proposal, was given to the Japanese government last week in bilateral trade talks. It calls for the agreement between the two countries of what amounts to targets in increasing purchases of US cars and car parts.

The nature of the proposal calls into question persistent US claims that it is neither setting targets, nor pressing US interests at the expense of other countries, as it seeks to open Japan's market.

The proposals made by each side in the talks have not been revealed publicly. The US has indicated that it was only trying to persuade Japan to bring the level of its market openness to the standard of other G7 countries.

However, while the US proposal does not use the word target, it uses the same word-

ing as the bilateral semiconductor arrangement which forced Japan to meet the market share for foreign semiconductor manufacturers targeted by the agreement.

Furthermore, while the US also calls for agreeing effective targets for the sale of non-Japanese motor vehicles and vehicle parts, by attempting to set a separate target for US and non-US products, the US proposal as it stands in effect puts pressure on Japanese companies to purchase US products rather than those of other non-Japanese motor parts makers, including European companies.

The distinction between non-Japanese motor and motor parts makers in the US proposal also discriminates against sales by foreign car makers with Japanese capital. This would include Rover, the UK company in which Honda has a stake, as well as Japanese transplants in the UK.

Japan has repeatedly opposed targets for foreign product sales on the grounds this would lead to managed trade.

South Africa and Japan in business deals

By Philip Gawth in Johannesburg

TWO business deals were unveiled yesterday between South Africa and Japan, indicating closer ties between the two in a post-sanctions environment.

A joint venture was unveiled between two of the world's leading ferrochrome producers, Samancor and Nippon Denko-

the first large investment by a Japanese company since the lifting of sanctions - while the fuel and chemicals group Sasol and Mitsui have formed a marketing and distribution alliance for the handling of Sasol Chemical's hexane and pentane in Japan and South Korea.

Sasol will supplement the current production to meet the growing demand in these markets and Mitsui will

handle the marketing and distribution.

Pentane is to be supplied by Sasol for production of polyethylene plastics. Mitsui will work with a Japanese supplier on developing a market for this product and other specialty chemical products in Japan and Korea.

Samancor and Nippon Denko, meanwhile, have formed a joint venture, NST

Ferrochrome, that produces charge chrome for the Japanese market at a 60,000 tonnes per annum furnace located within Samancor's Tubatse ferrochrome plant. NST uses the Tubatse infrastructure, and chrome from Samancor's nearby mine, under a long-term agreement.

Samancor executives said the fact that Nippon Denko had ceased production of

charge chrome at its Hopokru plant was a measure of their commitment to the new deal.

Mr. Kazuo Kobayashi, president of Nippon Denko, said collaboration with Samancor, who had the world's largest mineral and production resources in its field, would ensure a stable and competitive supply of Ferrochrome to Nippon Steel and other major Japanese stainless steel producers.

Europe to press US for Gatt concession

Calls for early end to trade talks

By David Gardner in Luxembourg

THE European Community yesterday warned the US that it must improve its offer on market access if there is to be any chance of meeting the December 15 deadline for resolving the Uruguay Round talks on world trade reform.

Sir Leon Brittan, EC chief trade negotiator, after briefing EC foreign ministers on the talks, said the deadline was "within our reach, but not yet within our grasp".

Sir Leon will give a written account of the talks when EC foreign ministers meet in Brussels on November 8 - a meeting at which France and its allies are expected to press their misgivings about the Uruguay Round. The ministers had shown "overwhelming support for the view that the American response on market access... was inadequate," he said.

At July's Tokyo summit of the Group of Seven industrial nations, the Quad group - the US, Japan, Canada and the EC - agreed to cut "peak tariffs" of over 15 per cent by half. The EC has lodged an "illustrative offer" along these lines at the Geneva talks, and is challenging the US and Japan to "respond to what we are doing," as Sir Leon put it.

The commissioner said that the EC had 101 peak tariffs covering Ecu1.1bn (\$855m) in imports, whereas the US had 683 covering Ecu17.3bn, and Japan 496 covering Ecu2.7bn. "It is of course the high tariffs which are the real obstacle" on market access, he said.

On the Blair House farm trade agreement between the EC and the US, to which the EC, driven by French threats to scupper the Uruguay Round, is seeking additions, Sir Leon declared: "It is not for the French to move on Blair House; the ball is in the American court."

He implied that the US refusal to discuss Blair House or farm trade was linked to Washington's current absorption in getting the North American Free Trade Agreement with Canada and Mexico through Congress on November 17.

Sir Leon nevertheless signalled further progress on talks with the US for a special regime for audio-visual, cinema and broadcasting trade to protect European cultural interests, and said other negotiations with the US were continuing quietly.

By Frances Williams in Geneva

SUPPORT for a swift and successful conclusion to the Uruguay Round of trade liberalisation talks came yesterday from consumer organisations and the Czech Republic, amid rising anxiety in Geneva over slippage in the negotiating timetable.

Mr. Peter Sutherland, Gatt director-general, has called a meeting of the top-level Trade Negotiations Committee for November 1, where he is likely to urge renewed efforts to thrash out a tariff-cutting deal.

This month's failure by the US, EC, Japan and Canada to agree on lower trade barriers for farm and industrial goods means a comprehensive market access package for all 116 participants cannot be completed by November 15 as had been hoped.

But Mr. Sutherland is still pressing for most of the package to be settled by then, minimising the number of unresolved issues for the "end-game" in the final month before the Round's December 15 deadline.

The International Organisation of Consumers Unions yesterday told Mr. Sutherland that while the package on the table was not perfect, it promised a big improvement, and was "incomparably better" than the chaos that would follow a breakdown in the talks.

IOCU, which represents 180 consumer organisations in 70 countries, urged Round negotiators to ignore the calls of protectionists and put the interests of consumers first. Mr. James Firebrace, IOCU director-general, said all consumers suffered because of protectionism.

Mr. Vladimir Dlouhy, trade minister of the Czech Republic, who also saw Mr. Sutherland yesterday, said a successful Uruguay Round conclusion was essential to combat protectionist pressures and provide the increased access to foreign markets his country needed for future growth.

Poland, Hungary and Slovakia shared this view, he added. The casualties of a Uruguay Round failure would be, in the short term, trade, in the medium term, world economic growth, and long term, perhaps global political stability. If strong regionalism and protectionist barriers were allowed to flourish, "you could end up with a war, after a decade, in different parts of the world".

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NEWS: CANADIAN ELECTIONS

Tradition of give and take is swept away Quebec 'headed towards freedom'

ONLY a full-blooded revolution could have matched the upheaval in Canadian politics caused by the general election on Monday.

Canada's diverse cultures and regions have until now accommodated themselves within two or three national parties. The Liberals, the Progressive Conservatives and most recently the New Democrats have deep differences on economic and social policies. But they have shared a commitment to a united and stable country where each linguistic group and region gets a little and gets a little.

Bernard Simon on a virtual revolution in Canadian politics

That tradition will be severely tested in the new parliament. Only the Liberals, who swept to victory on Monday with 178 out of 295 seats, remain as a force dedicated to keeping the country in one piece through compromise rather than confrontation.

The Conservatives and the New Democrats suffered such devastating setbacks that they have lost their status as official parties, losing some of their parliamentary privileges.

Despite winning about one-seventh of the popular vote, the Tories' presence in the House of Commons has been slashed from 187 to two. The left-leaning NDP's representation has shrunk from 44 to 8.

In their place will be two unashamedly regional groups: the Bloc Québécois, which will



Liberal party leader Jean Chrétien is mobbed by party supporters yesterday.

form the official opposition, and the Reform party, the right-of-centre group based in western Canada.

The Bloc's leader, Mr Lucien Bouchard, has given notice that he will use its substantial representation in Ottawa to further the cause of Quebec independence. In particular, the Bloc is likely to try to build support for its provincial wing, the Parti Québécois, which faces a provincial election

towards the end of next year. The separatists have promised to hold an independence referendum within a year, if the PQ comes to office.

The 53 Reform party MPs, almost all of them from Alberta and British Columbia, could be among Mr Bouchard's most effective weapons in his struggle for independence.

While Reform leader Mr Preston Manning insists that he wants to keep Canada in

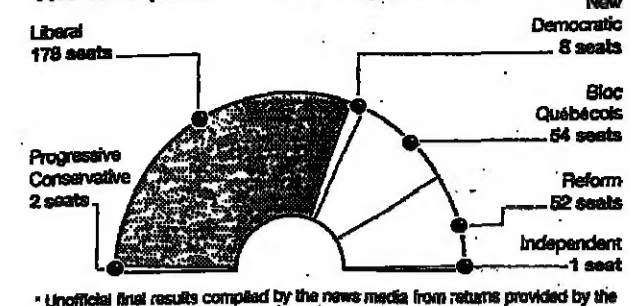
one piece, his conditions for "renewing the federation" - in particular his insistence that Quebec be given exactly the same constitutional treatment as the other nine provinces - are totally unacceptable to Quebec.

Reform also opposes official bilingualism. Whatever the party's official position, many of its supporters would shed no tears if Quebec went its own way.

The Liberals sweep to power

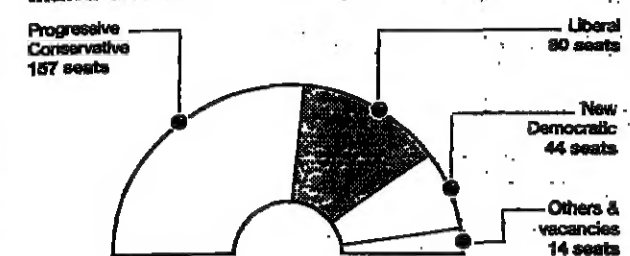
Results* 295 seats

The new parliamentary alignment...



* Unofficial final results compiled by the news media from returns provided by the government organization Elections Canada.

...and the old



Containing these centrifugal forces will be one of the biggest challenges facing the new Liberal government under Mr Jean Chrétien. However, few Canadian politicians are better suited to the task.

Mr Chrétien, aged 59, is a Québécois but believes passionately in a united Canada.

He is a veteran of almost every constitutional debate of the past three decades. Having entered parliament for the first

time 30 years ago, Mr Chrétien held almost every major portfolio under former prime minister Pierre Trudeau.

Mr Chrétien has been widely reviled in Quebec in recent years for, among other things, opposing the 1987 Meech Lake accord, which would have given the province significant extra powers. But his ability to make a comeback was demonstrated by his unexpectedly large victory on Monday in his

home constituency of Saint-Maurice in the eastern part of the province.

There were other crumbs of consolation for federalists from the election result. One was that the Liberal landslide stretched across the country. The Liberals won seats in all 10 provinces, and Mr Chrétien's cabinet is likely to reflect that diversity.

Furthermore, one of the two Conservatives to retain their seats was Mr Jean Charest, the youthful deputy prime minister who was beaten by Ms Kim Campbell last June for the party leadership.

Mr Charest is a bilingual and personable Québécois who demonstrated during the leadership campaign that he also has a substantial following outside the province. It would be surprising if he did not play a leading role in the coming constitutional wrangle.

Reform and BQ will be sending a large contingent of neophyte MPs to Ottawa. Reform's unity, in particular, will be tested by the contrast between Mr Manning's autocratic style, and the party platform's promise of looser parliamentary discipline and greater accountability by MPs to their constituents.

However, the two parties have yet to prove that they are more than short-lived wonders likely to end up as fractious protest groups. Both owe much of their support to voters' deep-rooted desire for change after the tough years of Tory rule, rather than loyalty to their respective platforms. Their support may drift away once the economy picks up.

By Robert Gibbens in Montreal

MR Lucien Bouchard, leader of the separatist Bloc Québécois, was in no doubt as to the import of his party's strong showing in Monday's poll. "This election is a pivotal point in the process towards sovereignty. Independence is the only remaining option after Canadians twice failed to amend the constitution to accommodate Quebec nationalism," he said.

The new parliament would reflect the real nature of Canada. "There are two countries in Canada. Starting today these two countries must begin talking together more frankly right in parliament."

A former member of Conservative Prime Minister Brian Mulroney's cabinet, Mr Bouchard walked out in 1990 over the Meech Lake constitutional accord, on the grounds that Quebec did not get enough out of the plan.

In the three years since he has built the BQ into the most popular party in the province and the legitimate voice in parliament of most of its French-speaking majority.

Yet despite the BQ's impressive sweep of 54 of the province's 75 seats, federalists in Quebec have far from given up the fight. Mr Bernard Roy, former chief of Cabinet for Premier Brian Mulroney and head of the Montreal Chamber of Commerce, said: "English Canada will never tolerate a separatist party in the Commons forming the official Opposition." How can the Bloc represent all Canada? The Bloc got two-thirds of the Quebec seats with only half the vote. We've seen primarily a protest vote.

Mr Bouchard was careful to preserve a conciliatory tone when he addressed party workers in his campaign headquarters in Alma, Quebec. "We're not out to destroy federal institutions and Canada, but to win a better deal for Quebec," he said in English.

Liberal party softens its approach to freer trade

By Bernard Simon

CANADA'S Liberal party has substantially softened its stand on North American free trade since the last general election in 1988. During that election, which they lost, the Liberals made abrogation of the US-Canada free trade pact a key plank of their policy platform.

By this year's campaign, however, the Liberals had pledged only to seek renegotiation of some elements of the 1989 accord, the FTA, and the

North American Free Trade Agreement, which includes Mexico. "Abrogating trade agreements should only be a last resort if satisfactory changes cannot be negotiated," the Liberals' campaign platform said.

Nafta is due to come into force on January 1 1994. Diplomats and political observers predict that, with a little help from President Bill Clinton, the US Congress and the Uruguay Round of multilateral trade talks, the Liberals will eventually sign on to Nafta in time to meet the

implementation date. The outgoing Progressive Conservative government pushed Nafta enabling legislation through Parliament last summer.

Only formal promulgation is required to put it into law. The Liberals pledged in the campaign to seek four specific "improvements" to the FTA and Nafta: a subsidies code, an anti-dumping code, a more effective dispute settlement

mechanism, and the same protection for Canadian energy producers as is envisaged for Mexico.

Some Liberal concerns would be addressed if the Uruguay Round is successfully wrapped up this year. The previous Conservative government tried but failed to negotiate a subsidies package in the 1989 FTA. Anti-Nafta pressure on Mr Chrétien would also be eased if the US Congress ratifies Nafta. Votes are scheduled in the Senate and the House of Representatives next month.

On other issues, diplomats predict that Ottawa and Washington will find a face-saving formula which will enable Mr Chrétien to point out that his concerns are being met, and allow him to proceed with implementation of Nafta. A visit to Washington will be among the new prime minister's early priorities.

President Clinton said yesterday he did not expect the election to have an impact on Nafta.

The results of the election should also make it easier for Mr Chrétien

to press ahead with Nafta. The left-leaning New Democratic Party, the only parliamentary group unambiguously opposed to Nafta, ended up with only eight seats in the House of Commons. The two regional parties, the Bloc Québécois and the Reform party, which will form the bulk of the opposition, generally favour the free trade agreements.

Even within the Liberal party itself, support for free trade is more vocal and opposition more muted than it was five years ago.



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Bank moves in support of Canadian \$

By Our Foreign and Financial staff

THE Bank of Canada intervened to support the Canadian dollar yesterday as it fell sharply following the results of the general election and worries about a resurgence of separatism.

The central bank was seen selling US dollars and buying a volatile Canadian currency as the latter initially fell more than 2 cents against its US counterpart to hit a low of C\$1.328.

MARKET REACTION

The Canadian dollar had weakened on electoral uncertainty but picked up just before the result on the belief that a strong Liberal government was better than a weak conservative one.

The Canadian currency steadied later to close in London at C\$1.32 to the US dollar.

On Wall Street, economists were surprised by the extent of the Conservative defeat. "The joke around here is that it was the greatest defeat of any standing government in the post-Babylonian era," said Mr. Bruce Kasman, senior international economist with Morgan Stanley in New York.

disappearance." But opinions differed on the impact of the Liberal victory on Canadian financial markets, mainly because of uncertainty about the new Liberal government's economy policy.

Mr William Sterling, international economist with Merrill Lynch, said that if Liberal leader Mr Jean Chrétien "goes for growth" with some form of fiscal stimulus, Canadian bond and currency markets could suffer because of the implications such a policy would have for the C\$35.5bn federal deficit.

Economists say a lot depends on whether ratings agencies downgrade Canadian government debt at the first sign of an expansionary fiscal policy. "The view in the markets is that the ratings agencies are going to have quite a bit of influence on how much latitude the incoming government has," said Mr Sterling.

As for US investors' view of Canadian markets, Mr Kasman said: "Investors here like the high yields relative to the US, but there is concern about the role of the Bloc Québécois in parliament, and concern about regional fragmentation of the Canadian political scene."

Mr Kasman believes the main risk in terms of financial markets is a declining Canadian dollar. "Investors know the Bank of Canada is already in the mode of trying to ease interest rates, and is willing to accept the price."

That price is a further depreciation in the Canadian dollar.



Lacien Bouchard-Quebec leader in confident mood



Kim Campbell yesterday: absolutely nothing to smile about

Prospects rise for steady growth

There have been productivity improvements, writes Bernard Simon

CANADA'S Liberal party inherits a domestic economy in fairly better shape than the one it left when it was last in office in the early 1990s.

After more than two years of severe recession, a gradual economic recovery has begun. The Conference Board of Canada recently predicted GDP will rise by 2.4 per cent in real terms this year, accelerating to 3 per cent growth in 1994 and 3.5 per cent in 1995.

Inflation is below 2 per cent, well ahead of the targets set by the outgoing Progressive Conservative government two years ago. Meanwhile interest rates have tumbled to their lowest levels in two decades.

While the recession and free trade with the US have brought pain to many Canadian businesses and their

workers, they have also encouraged significant improvements in productivity.

Mr William Macdonald, Toronto lawyer and economic consultant, says Canada is 4-5 years into a 12-year restructuring which, if successful, could give it one of the best combinations in the industrial world of mutually reinforcing monetary, fiscal, exchange rate and trade policies.

THE ECONOMY

The Business Council on National Issues, which represents 150 chief executives of the country's biggest companies, said yesterday that its judgment of the Liberals would depend on their handling of four issues: government spending, free trade with the US and

Mexico, tax reform and monetary policy.

All major parties promised in the election campaign to contain or cut the federal government's C\$35.5bn (\$17.4bn) budget deficit.

The Liberals said they would bring the deficit down to 3 per cent of GDP, from its present level of 5.2 per cent. However, economists are nervous that with two regional parties on opposition benches and the threat of Quebec secession, the Liberals will be hard-pressed to resist demands to loosen the purse-strings.

One of the most crucial decisions facing the new government is whether to reappoint Mr John Crow, Bank of Canada governor, to a second seven-year term. Mr Crow's first term expires early next year.

Mr Jean Chrétien, Liberal leader, suggested before the campaign began that Mr Crow, whom many Canadians blame for the recent tough times, would have to go, but party officials have shown an appreciation recently of Mr Crow's value in bolstering foreign investor confidence.

The Liberals are more pragmatic and business-oriented than they were under Mr Pierre Trudeau in the 1970s and early 80s. But the party also still contains an interventionist and nationalist wing.

The degree to which the new government will be willing to accommodate business's - and especially foreign investors' - preferences in economic policy will become clear when it tables its first budget and decides on Mr Crow's future.

Clinton seeks \$10bn in cuts

By Jurek Martin in Washington

PRESIDENT Bill Clinton sent to Congress yesterday an additional \$10bn in spending cuts over the next five years and unveiled a simplified government procurement programme that officials said could save as much as \$22.5bn over the same period.

Both proposals and their claimed economies are likely to meet stiff challenges in Congress. A bipartisan group under Congressman Tim Wirth, the Minnesota Democrat, is pressing for an extra \$100bn spending cuts, while Mr Leon Panetta, budget director, conceded congressional experts believed the changes in purchasing rules might yield only \$8bn-\$9bn.

Under the Clinton proposal, \$1.5bn would be saved by cutting existing programmes, such as ending federal subsidies for wool, mohair and honey production. The rest would come from assorted savings across government, most notably in the Department of Agriculture, brought about under the auspices of the National Performance Review directed by Vice-President Al Gore.

The first part of yesterday's package is incomplete, officials said, because Congress has yet

to finalise four appropriations bills for the current fiscal year, which began this month. Further cuts of \$1bn-\$2bn will be sent to Congress when the bills have passed.

Mr Clinton sounded defensive on the size of the spending cuts, saying: "If they aren't passed, I'll come back with more." But he waxed more eloquent on efficiency savings, claiming they could free funds for greater law and narcotics enforcement.

He signed an executive order under which federal agencies will begin accepting contract bids by computer, with the ultimate goal that this will apply to all the estimated 20m contracts worth a total \$200bn the government signs each year. It is also intended that all federal salary and pension payments be made by electronic transfer.

Changed purchasing rules would also increase to \$100,000 from \$25,000 the size of contracts that can awarded without extensive auditing procedures. This, the president claimed, would open up many opportunities to small businesses.

But the main target was simplifying defence procurement, with the aim of obliging the military to buy supplies off-the-shelf at best prices.

EC joins US in push on services

By George Graham in Washington

THE European Community is to join the US push to make Asian and Latin American countries open their financial services markets more widely as the Uruguay Round of trade liberalisation talks comes to a climax.

Mr Lawrence Summers, the US Treasury undersecretary in charge of international affairs, said yesterday the EC had agreed to follow the US example by sending high-level officials to several emerging mar-

kets in an effort to "help unblock the Geneva logjam."

Mr Summers said the Clinton administration's decision to back legislation authorising restrictions on the expansion of banks and financial service companies from countries which do not allow equal access to US businesses would serve as a lever to secure additional concessions in the sector before the conclusion of the Uruguay round.

"The offers from many of the participants in the negotiations are simply not good enough," he said.

Hopes fade for UK-Italian helicopter purchase

By Daniel Green

HOPES were fading yesterday in the UK and Canadian aerospace industries over the fate of a C\$6.5bn (\$2.5bn) Canadian order for helicopters from a UK-Italian consortium.

Mr Jean Chrétien, the leader of the triumphant Liberal party, promised during his campaign that an incoming Liberal government's first acts would include cancelling the order for the EH-101 helicopters, which was placed in October 1989 by the outgoing Progressive Conservative government.

Westland, the UK partner in the EH-101, said yesterday that it would "wait and see" how Mr Chrétien acted. But it is clearly bracing itself for the loss of the order, which would cut \$400m off its £1.9bn order book.

The original order was for 35 sea patrol helicopters and 15 search and rescue variants.

AEROSPACE

The main contractors for the helicopter are EH Industries, a joint venture between the UK's

Westland Group and Agusta of Italy, and Paramax, a Canadian company controlled by Unisys of the US.

EH Industries would have supplied the basic aircraft, while on-board systems would be provided by Paramax. Opponents of the deal argue that such a large order for

essentially defence aircraft used, for example, in submarine hunting, was inappropriate to a post-cold war defence policy.

The deal's supporters argue that the Canadian forces urgently need to replace their ageing fleet of Sea King and Labrador helicopters.

WHERE TO WATCH THE FT THIS WEEK

MONDAY

- 05:30 FT Reports •
- 06:30 European Business Today†
- 07:45 European Business Today†
- 12:30 West of Moscow†
- 22:30 European Business Today†

TUESDAY

- 06:30 European Business Today†
- 07:45 European Business Today†
- 07:45 FT Reports*
- 13:15 FT Reports*
- 15:45 FT Reports*
- 18:45 FT Reports*
- 22:30 European Business Today†
- 18:45 FT Reports*

WEDNESDAY

- 06:30 European Business Today†
- 07:45 European Business Today†
- 21:30 FT Reports†
- Losses in Space. Who will burn out in the overcrowded satellite launch business?
- 22:30 European Business Today†

THURSDAY

- 06:30 European Business Today†
- 07:45 European Business Today†
- 18:45 FT Reports*
- 22:30 European Business Today†

FRIDAY

- 06:30 European Business Today†
- 07:45 European Business Today†
- 22:30 European Business Today†

SATURDAY

- 08:30 FT Reports†

SUNDAY

- 03:30 West of Moscow •
- China... opportunity or morass? How can western companies ride the last dragon?
- 05:30 FT Reports •
- 22:30 West of Moscow †

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TURKISH AIRLINES
NEW HORIZONS IN FLIGHT

The pertinent fears of 'apartheid's children'

Philip Gawith on how a conservative alliance has highlighted the key issue facing South Africa's constitution writers

IT WAS no roll call of honour. Indeed, some commentators called it an unholy alliance of apartheid's children, the five leaders of South Africa's new conservative Freedom Alliance facing the press together for the first time.

They posed for their team photo earlier this month in a nondescript Pretoria hotel, in front of the three black leaders, chief minister Mangosuthu Buthelezi of KwaZulu, Brigadier Oupa Gqozo of the Ciskei, President Lucas Mangope of Bophuthatswana, and behind them the two Afrikaner leaders, Mr Ferdi Hartzenberg, leader of the Conservative Party, and General Constand Viljoen of the Afrikaner Volksfront. Many wrote it off disparagingly as stricken at birth by internally contradictory policies.

When, however, only a few days after the alliance's formation, President F W de Klerk told the Cape Congress of the National party that a referendum might be necessary to break an impending constitutional impasse, this strange union began to appear in a different light.

Taken together, the two events have brought into focus the key constitutional conundrum facing South Africa: how to reconcile the power of the majority with the fears of minorities.

This issue has always been at the heart of the constitutional debate. What is now clearer than ever is that, despite nearly two years of negotiations, it remains fundamentally unresolved.

The most obvious symptom of this is the alliance itself, representing a considerable body of conservative opinion, which stands outside and wholly opposed to the Multi-Party Negotiating Forum (MPNF) where the country's constitutional talks are being held.

As President de Klerk said, the negotiating process has become bogged down and needs to be revived. "It cannot continue like this. Our



Viljoen and Hartzenberg with, left to right, Mangope, Gqozo and Buthelezi: they may command as much support as the National party

country cannot afford that negotiations lose their momentum. There is no question of turning around."

What recent events have made clear is that there are only two real options. Either the government and the ANC, the dominant players at the constitutional talks, are going to have to make significant concessions in this next few weeks on the issue of a more federal system - which the Freedom Alliance has made a central plank of its demands - to bring the alliance back on board; or the government and the ANC are going to press ahead without them.

The problem with the latter course is that it would require a referendum, in which the MPNF obtained commanding public support, to legitimise it.

The ANC, after initially making supportive noises, has said it does not support a referendum, apparently believing that for the ANC and Mr de Klerk's NP to be seen supporting the same issue would be to lend the NP undeserved credibility in the run-up to elections.

How to keep negotiations moving, preferably with, but possibly without, the alliance is sure to be the

main subject of discussion at the two-day retreat where government and ANC negotiators are currently locked away.

To date the government has laid more stress on trying to accommodate the alliance, while the ANC has been uncompromising in its commitment to honouring existing time-tables, in terms of which all outstanding constitutional issues must be resolved by November 5. Mr Cyril Ramaphosa, ANC secretary general, said on Monday that if the Freedom Alliance was not on board by then, the boat would leave without them.

Those commentators who believe the current draft constitution is still far from federal, and who take the disruptive potential of the alliance more seriously, take a more conciliatory line.

Among them is Professor Lawrence Schlemmer of the Human Sciences Research Council and South Africa's pre-eminent pollster. He says the Freedom Alliance probably now enjoys about the same level of support as the NP, giving it a claim as the country's second-largest political grouping after the ANC. Recent polling data suggests the

ANC would win 50-67 per cent of a popular vote, while the NP is in the 12-17 per cent range.

Prof Schlemmer believes the Freedom Alliance needs to be taken seriously because its decision to negotiate as a single bloc gives it considerable leverage compared with when most or all of its constituents were negotiating on an individual basis and were susceptible to being played off against each other.

He says it is a much more formidable grouping than in its earlier incarnations when it was little more than a loose assortment of parties that had something to lose. Now, argues Professor Schlemmer, South Africa has seen the emergence of a "minority-based political position".

He disagrees with those who say the alliance is an artificial construct. "It has a very, very coherent position. It is the minority rights position."

There are many who caution against premature efforts to bludgeon the alliance into line through a referendum. The newspaper Business Day argued recently: "A referendum majority, however large, will not shield the winners from the violence that an exclusive settlement will bring."

The same, of course, applies for efforts to proceed without the Alliance. There is considerable support for the view that the current draft constitution is not adequately federal in its nature. Professor Mervyn Frost of Natal University argues that the various protests - minimum standards, maintenance of economic unity, unreasonableness - whereby the central state can interfere in the affairs of a region are inimical to federalism.

Political analysts are having increasingly to resort to the poker analogy with the ANC and Freedom Alliance seemingly determined to go right down to the wire before revealing whether they are prepared to make any compromises.

NEWS IN BRIEF

ADB approves \$76.5m loan to Vietnam

THE Asian Development Bank yesterday approved a \$76.5m (\$50.6m) soft loan for Vietnam, the ADB's first credit to that country since the end of the Vietnam war in 1975, writes Victor Mallet from Bangkok.

The ADB's announcement was the latest move by a multilateral institution to resume aid to Vietnam. The US decided in July to stop opposing international assistance for Hanoi, allowing the IMF, the World Bank and the ADB to finance the country's economic reform programme and help repair its infrastructure.

The ADB's first loan, interest-free and repayable over 40 years with a 10-year grace period, is to finance irrigation projects. The bank has granted a further \$1.8m for technical assistance to help develop water resources.

Thai workers urged to quit

The US has asked Thailand to withdraw some 200 migrant workers from two Libyan building projects because the sites are bunkers which could be used to make chemical weapons, US officials said yesterday, writes Victor Mallet.

They named three private Thai companies said to be involved in the design, construction and supply of skilled labour for two underground sites at Tarhuna. "We believe they are chemical weapons factories," said one US official.

Earlier this month, Thai police arrested Mr Viraj Sakulmudta, owner of a company called W&M in the northern town of Chiang Mai, accusing him of illegally sending Thai workers to Libya. Mr Viraj, who denied the charge, saying he was building bomb shelters, was released on bail.

Unesco aims at resources shift

Unesco Director-General Federico Mayor yesterday announced plans to move resources from staff to programmes, Reuters reports from Paris. About \$120m of the proposed \$450m budget would go to field units, raising their share of operational funds from 38.2 to 45 per cent, he told the organisation's general conference.

Basic education, Unesco's top priority, was to get nearly 39 per cent of the budget (\$1m more than in the previous two-year period). Science would get 22.5 per cent, with culture winning 17.2 per cent, communication 11.2 per cent and social science 10.3 per cent.

Hijackers deny political link

Gunmen holding 28 hostages on a Nigeria Airways aircraft in Niger have denied any links with Nigerian politician Moshabola, Mr Abdoulaye Souley, Niger's transport minister, said yesterday, Reuters reports from Niamey.

First reports when the Airbus A310 was seized on Monday said the hijackers wanted Mr Abiola appointed president, four months after the cancellation of Nigerian elections he was set to win. But Mr Souley said the gunmen claimed Mr Abiola was as much a pillar of the Nigerian people as former military leader Ibrahim Babangida, who turned over power in August to a military-appointed civilian government.

Burundi coup appears to falter

By Leslie Crawford in Nairobi

A MILITARY coup in Burundi appeared to be faltering yesterday after army generals asked the prime minister to come out of hiding and form a new civilian government.

But there were doubts about the army's true intentions and the surviving members of the former government stayed in their refuge in the French embassy in Bujumbura.

Speaking from the French embassy, Ms Sylvie Klingel, the prime minister, called on Burundi's military to return to barracks. Her address, broadcast on state radio, announced an end to the dusk-to-dawn curfew. She said the borders and international airport would re-open soon.

Army generals on Monday asked her to form a new government, blaming the coup and the assassination of President Melchior Ndadaye on a handful of mutinous soldiers. Mr Ndadaye, Burundi's first democratically elected leader, had assumed office only three months earlier.

But Burundi diplomats abroad said they had reason to believe that those who were now disowning the coup had in fact been its architects. "Their about-turn could be a trap," said Mr Joseph Bangurambona, Burundi's ambassador to Nairobi. "We have no guarantees that if civilian leaders came out from hiding, the killings would not begin again."

Mr Bangurambona said the coup had unleashed a wave of ethnic killings in the countryside. The Hutus, Burundi's most numerous tribe, were reported to be killing Tutsis in revenge for the murder of President Ndadaye, who was a Hutu. Tutsi soldiers were also massacring Hutu villagers.

Israel is urged to speed up release of Palestinians

By Our Middle East Staff

PALESTINIAN negotiators yesterday pressed Israel for a more rapid and extensive release of prisoners as the two sides resumed peace talks at the Egyptian resort of Taba.

The negotiations centre on the transfer of limited powers to the Palestinians in the Gaza Strip and the West Bank town of Jericho and are due to be completed by mid-December.

The Palestinians, while welcoming this week's release of 617 prisoners, stressed that many more of the estimated 11,000 still held had to be freed in order to win greater popular support. They also insisted that prisoners from factions other than Fatah, headed by Mr Yasser Arafat, had to be included.

"We are not happy," Palestinian delegate Ziad Abu Ziad told reporters in Taba. "We are trying to make peace between Palestinians and Israelis - not between Israel and a faction of the Palestine Liberation Organisation. If peace has a broader base it will have wider support."

Israel has so far refused to free prisoners belonging to radical Islamic groups, such as Hamas and Islamic Jihad.

Mr Yitzhak Rabin, Israel's prime minister, said in a radio interview yesterday that the agreement with the PLO provided only for the release of a limited number of prisoners at this stage. How many more could be freed would depend on the progress being made in the peace negotiations and on the implementation of the declaration of principles signed in Washington on September 13.

Mr Rabin added that the peace process enjoyed widespread public support but it had to pass through certain difficult stages. One of those was the release of Palestinians.

Meanwhile in Damascus one of the radical Palestinian groups opposed to the outline peace agreement said it had agreed with Mr Arafat's Fatah movement to end clashes in the Gaza Strip.

The Popular Front for the Liberation of Palestine led by Mr George Habbash said the agreement was reached during talks in Gaza between representatives of both groups.

"Both sides condemned the clashes and agreed to act to stop them immediately. Agreement was also reached to avoid any contacts which might lead to renewing these clashes," the PFLP said.

Japan's economic indicators point to continued stagnation

By William Dawkins in Tokyo

JAPAN'S economy is hovering between recovery and decline, the government's official forecasting agency said yesterday.

The latest monthly report from the Economic Planning Agency showed that the diffusion index of economic indicators stood at 50 last month, exactly the dividing line between growth and contraction.

This is a slight improvement from July, when the index stood at 40, the third consecutive month for which it had fallen below 50. The index measures the economic outlook for the coming six months, but can be unreliable, since it had

indicated a recovery in the first four months of this year. Among the index's components, money supply, machinery orders and housing starts continued to rise in August, as in previous months. The main changes in trend were job offers, which increased for the first time in five months, and industrial stocks, which started to decline for the first time in six months. Overall construction orders were down, however.

The agency's other two main indices showed a slight improvement in August. The index of coincident indicators, which measures current economic conditions, stood at 50.0 last month, against zero in

July, while the index of lagging indicators, which traces economic trends in the past, was at 42.9 in August, against a 21.4 a month earlier.

Agency officials warned that weak industrial production could pull the coincident index back below 50 in September and October. Their fears were reinforced yesterday by an announcement from Mazda, the car producer, that it aims to make all its 25,000 staff take two extra days off in November on reduced pay, to adjust production in line with reduced demand.

NKK, the steel group, will meanwhile cut managers' winter bonuses and senior executives' salaries from November

because of a fall in profits.

Japan will find it difficult to meet its target of 3.3 per cent growth in gross national product this year, admitted Ms Manabe Kubota, the economic planning agency minister.

The EPA's forecast is generally seen, even by other government departments, as optimistic. Most independent economists believe the economy will shrink slightly or stagnate this year. The Industrial Bank of Japan yesterday became the latest to downgrade its forecasts, from 0.6 per cent growth for the year to next March, to a 0.3 per cent decline for the same period, followed by a 0.3 per cent rise in 1994.

Japan takes the lead in resumption of aid to Kenya

By Leslie Crawford in Nairobi

JAPAN yesterday became the first donor government to resume financial assistance to Kenya following an international freeze on aid of almost two years.

The Japanese embassy in Nairobi said the ¥8.25bn (\$77.83m) loan was for export

development and balance of payments support.

The resumption of Japanese aid comes at a critical time for Kenya, which is expected to present its case for financial rehabilitation at a consultative group meeting of international donors in Paris next month.

World Bank and International Monetary Fund teams

are currently in Nairobi assessing the government's commitment to reform. But negotiations on a medium-term economic programme, acceptable to the Kenyan government and the IMF, are reportedly bogged down on the issue of para-statal reform and corruption in the state sector.

The donor community

suspended balance of payments support in November 1991, citing President Daniel arap Moi government's poor record on human rights, political freedom and economic mismanagement.

Japan's decision will be seen by Kenya as a reward for its progress with reforms but it has placed Japan, Kenya's largest

creditor, in an awkward position in relation to the rest of the donor community.

Mr Masaki Koto, economic attaché at the Japanese embassy, said the export development credit, co-financed with the World Bank, had been negotiated before the 1991 aid freeze. The World Bank had disbursed its \$86m share of the

loan earlier this year, and Japan was doing so now because Kenya had met all the "technical conditions" of the programme, he said.

"This does not mean that we are fully satisfied with Kenya's economic progress," the Japanese diplomat added. "Kenya still has to tackle considerable reforms."

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British Coal wins big order from Denmark

By Michael Smith

BRITISH COAL, the state-owned mining corporation, has won its biggest overseas order since it began testing the market for potential sales in March and is on course to increase exports by more than 50 per cent this year.

The deal, concluded with a Danish electricity generator for 100,000 tonnes, was achieved against intense international competition. Shipments began this week.

It will help British Coal counter

arguments, which have been voiced by MPs, and may resurface today in a house of commons debate, that it has been sluggish in winning extra sales.

The agreement, disclosed by International Coal Report, a Financial Times publication, will also provide a test for the government in how far it is prepared to go in subsidising coal sales.

In its policy document published in March the government said it would provide subsidies for sales to UK electricity generators and indicated that up to \$500m was available.

Since then the generators have shown a marked unwillingness to buy additional tonnages this financial year at least.

But the government last week said it would subsidise a British Coal deal to sell 1.2m tonnes to Alcan, the aluminium company, in the north east of England.

The Department of Trade and Industry is considering British Coal's request for a subsidy for the Danish contract, which is with SK Power for its Copenhagen plant.

British Coal refused to say yesterday what price it had agreed for the Danish contract. However it is likely to be significantly below the £35 a tonne British Coal's existing contracts with the UK generators.

ICR says Danish companies have recently bought coal for as little as \$30 a tonne.

The contract means British Coal will sell about 1m tonnes of coal overseas this year, compared with 600,000 tonnes last year.

Imports have also increased, however, from 400,000 tonnes to about 800,000 tonnes, according to latest figures from British Coal.

The order will not affect significantly the decline in jobs in the deep mine coal industry.

● Lady Thatcher believes the government has failed to honour its debt to the Union of Democratic Mineworkers, which opposed the National Union of Mineworkers' strike of 1985.

In tonight's episode of the BBC TV programme *Downing Street: The Thatcher Years*, she said: "I understand now that those marvellous working miners, the Democratic Union, feel a sense of betrayal."

Britain in brief



Unit trust sales reach £668.6m

Net sales of unit trusts were £668.6m in September, down from £661.2m in August. Nevertheless, the increase still took net sales for the year to date to £25.91bn, more than in the whole of 1992, the previous record for a calendar year.

The popularity of Personal Equity Plans, which offer tax-free returns, has been a major factor behind unit trust sales. Of net unit trust sales of £2.6bn in the third quarter, £612m was in PEP form. Funds invested in unit trust PEPs now amount to £5.5bn, out of a unit trust total of £24.1bn.

Gross sales of unit trusts in September were £1.35bn and repurchases £711.6m. The slight dip in sales from August's total may have been due to the generally weaker performance of stock markets in September, although they have rebounded to new highs this month. Compared with August, sales to both private and institutional investors were slightly down.

Union chief backs flexibility

Companies can combine job security for employees with the ability to adjust overall employee numbers as markets change, according to one of Britain's leading trade unionists, Mr John Edmonds, head of the GMB general union, cited Rover, the vehicle manufacturer, and National Power, the generator, as companies which had no compulsory redundancy agreements with their unions but had also shed large numbers of staff in the past two years.

Banks defended in LSE defence

The financial system has been unfairly blamed for short-term attitudes among UK companies, Professor Rose said in a lecture at the London Business School last night in a memorial lecture for Harold Wincott, the former FT journalist.

Professor Rose argued that finance had been "more scapegoat than villain" in limiting Britain's economic growth. Many traditional criticisms of banks and securities markets were contradictory, and lacked supporting evidence.

In the 23rd annual Wincott Lecture, Professor Rose said that while banks were criticised for their short-term view, "it is the large British corporate customers rather than the banker who is reluctant to enter into the marriage".

Thames in £90m ITV deal

Thames Television, the independent television production company that lost its ITV franchise, announced yesterday that it had signed a deal to make programmes worth over £90m for the ITV Network Centre, the ITV programme commissioning organisation. Thames said the agreement was the largest ever in the UK with an independent producer.

Fraud put at £632m this year

The value of fraud charges brought in the UK courts was £632m in 53 separate cases during the first eight months of this year, according to the latest figures in the Fraud Barometer produced by accountants KPMG Peat Marwick. That compares with £871m in charges from 84 cases for all of 1992. The firm said that fraud sentencing was inconsistent, with disproportionately harsh sentences going to professional advisers who abuse positions of trust.

South east faces jobs reversal

A shrinking financial services industry in the south east is leading to fewer jobs and changing working patterns for employees, according to a report. The report of a joint study by academics at Hull and Bristol Universities warned that the industry could be facing a period of long term decline after the wholesale shakeout in jobs and companies over the last two years.

The report, "A Reversal of Fortune?", published by the South East Economic Development Strategy, is calling for local authorities to take greater interest in the provision of financial services.

Ofwat seeks compensation

Water companies should increase compensation for poor service rather than their directors' salaries, according to the Ofwat National Customer Council, the industry watchdog.

The council said that water company customers do not have the same rights as customers in a shop, and the water companies were slow to handle complaints and offer compensation.

The water companies rejected the criticisms. The Water Services Association

European consortium to tender for bridge

A CONSORTIUM of European construction companies has been formed by Tarmac Construction to tender for the building of the second Forth road bridge. It is the fourth consortium known to have registered an interest in the project, which might cost £275m.

The government is expected to announce early next year whether it wants to go ahead with the new bridge. By next month it will have received feasibility studies on the project, which would be privately funded and operated, and earn revenue from tolls on the new and the existing bridge.

The Scottish Office will draw up a shortlist of three consortia to tender for the project.

The consortium led by Tarmac includes the construction companies Bilfinger and Berger of Germany, Bouygues of France, and HBM (Civil Engineering) of Holland, as well as Transroute, a French toll road operator. It is advised by Morgan Grenfell with landings to be led by NatWest Markets and Banque Nationale de Paris. The grouping is called E16 after the European number of the road which crosses the Forth.

Other consortia to have declared their bids are Fortpan, led by Trafalgar House and Balfour Beatty, advised by Kleinwort Benson; Fort Link, consisting of Taylor Woodrow, Sir Robert McAlpine, John Mowlem and Morrison Construction, together with Dragados of Spain and Monberg and Thorsen of Denmark, advised by BZW; and John Laing, GTM-Entrepose of France and Miller Group of Edinburgh, advised by Bank of America.

● Nissan to build axle plant ● Land Rover increases workforce

Vehicle makers forecast expansion

By Chris Tighe and John Griffiths

TWO UK-based vehicle makers announced expansion plans yesterday, underlining the resurgent competitiveness of the industry in the face of falling demand and output in continental Europe.

Nissan, the Japanese car-maker, is proposing a £25m expansion at its 5500m Sunderland plant in north east England, even though it is temporarily halving output from the site because of weak European sales.

Meanwhile, Land Rover is taking on another 300 workers to increase production of its four-wheel-drive vehicles in central England. The expansion will bring to 800 the total recruited since September by Land Rover, a subsidiary of the Rover group owned by British Aerospace.

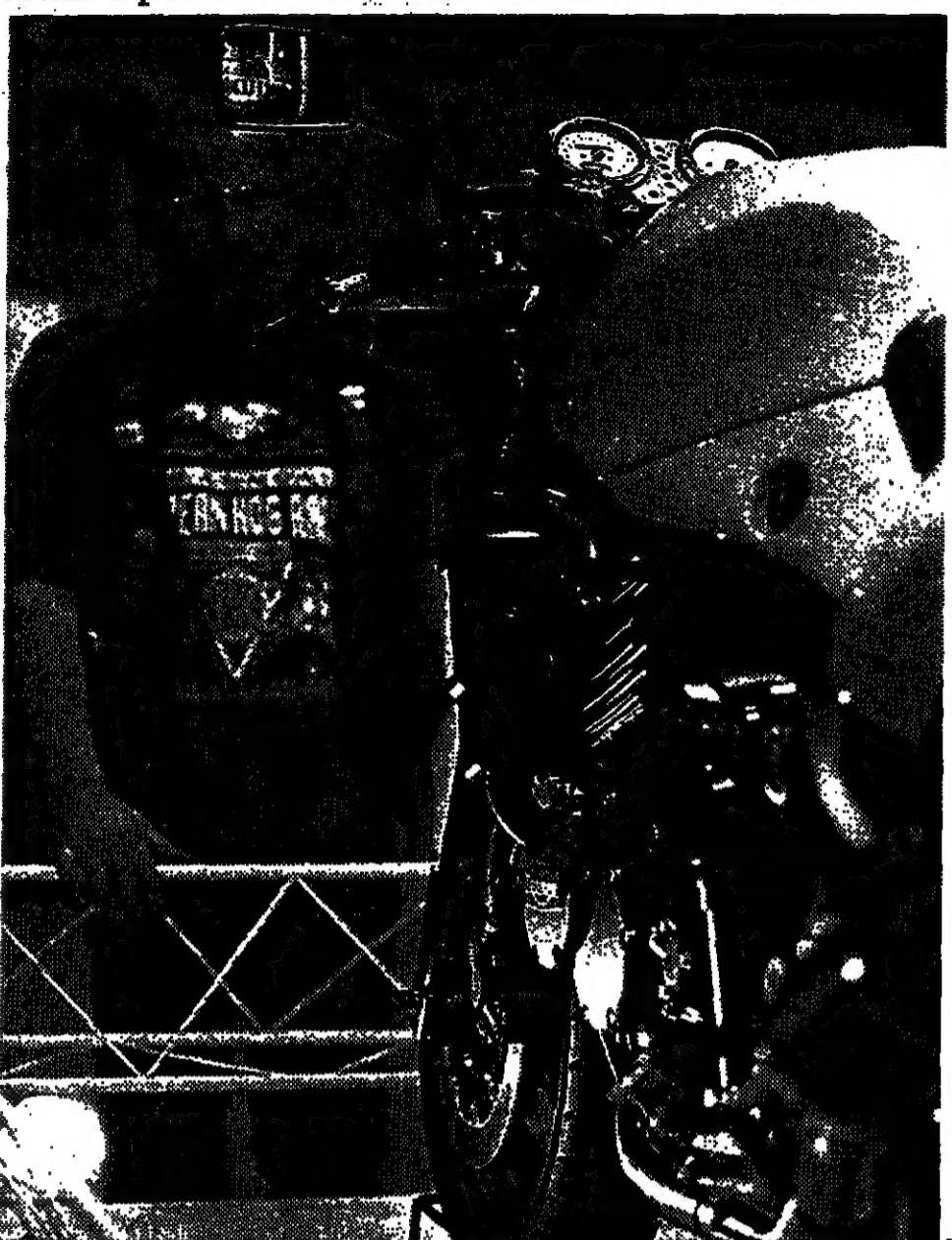
Nissan's new investment at Sunderland has been prompted partly by the strength of the Japanese yen; the expansion includes a £18m rear axle sub-assembly plant, replacing imported axles made by Nissan in Japan.

Nissan Motor Manufacturing UK declined yesterday to say what reduction would result in the production cost of Sunderland-made cars.

The company, which has cut Sunderland's 1993 output from 270,000 cars to 245,000, also refused to specify the planned capacity of the axle plant, due to begin open in 1994.

Although more than 80 per cent of components by value come from European suppliers, the company plans to continue importing transmissions and engine blocks, the most single expensive components, from Japan.

Nissan is also suspending night-shift for its 2,400 production workers from November 8 until the end of December. Output in 1994 may be below 245,000 cars, but the company



An enthusiast examines the latest offering yesterday from Triumph, the UK manufacturer, at the Motor Cycle Show in Birmingham. While domestic car sales are recovering motorcycle executives believe their sector is now bottoming out after more than a decade of decline.

says it is investing for the future.

At Land Rover, the latest recruitment campaign will lift the company's total employment to 8,700 and put it on course to achieve record production levels.

Total output will be running at an annualised rate of 83,000 units when the latest additions to the work force are fully operative from November 8. As

a result this year the company expects to exceed not only last year's production of 57,000.

In September the workforce was increased with the introduction of a night shift at Solihull, lifting Discovery production from 700 a week to 900. From November this will rise further to 1,050 a week.

The increases mean that the Solihull plants will be producing a total of 1,350 vehicles a week from November, a 42 per cent increase over the 1,250 a week at the start of the year.

Honda, the Japanese manufacturer, is also preparing to market Land Rover's Discovery model in Japan. It will be badged as the Crossroad. The Discovery is to be launched early next year in North America, where Land Rover plans to quadruple total sales to 16,000 units a year over five years.

Insurers may face mis-selling charges

By Norma Cohen, Investments Correspondent

LAUTRO, the self-regulatory body for the life insurance industry, is considering charges of mis-selling against at least three of Britain's largest life insurance companies.

The three, whose identity has not yet been disclosed, are all public companies. In at least one of the cases, thousands of investors may be eligible for compensation.

Charges against the companies centre on their failure to control the hard-sell tactics of tied agents who sell their products exclusively but are not directly employed by them.

The companies failed to monitor the sales agents to ensure that they were giving best advice to investors and failed to exercise due care in the recruitment and training of sales agents.

Lautro, which yesterday released its report on its enforcement activities for the 12 month period ended June 30, said it has seen signs of improving compliance with its rules on selling. It found some signs that the insurance industry is improving the extent to which it complies with Lautro rules on selling insurance.

But it noted "that a small number of the largest and most serious cases to occupy the Monitoring Committee recently...involved major 'household name' Life Offices."

Complaints to Lautro from the public continued to grow, rising 35 per cent in the period to 2,774. However, Lautro noted that the rate of growth was lower than the 50 per cent rate recorded the year before.

Premiers to discuss Ulster peace plan

Friday's Anglo-Irish meeting is likely to be dominated by growing unrest, according to FT reporters in London, Dublin and Belfast

THE Hume-Adams proposals for peace in Northern Ireland will be discussed on Friday by Mr John Major, the Prime Minister, and Mr Albert Reynolds, the Irish premier, it emerged yesterday.

The meeting was confirmed against a background of rising violence in Belfast in the wake of Saturday's IRA bombing in the Protestant Shankill Road, which killed 10 people.

Mr Dick Spring, the Irish deputy Prime Minister, said he expected both prime ministers to give the Hume-Adams initiative "very serious attention on Friday to see where the process can go from here".

Extra troops and police were moved to Belfast from elsewhere in Northern Ireland yesterday after two Catholics were killed and six wounded in two separate incidents.

In a second incident, police arrested a soldier after a shooting outside the home of Thomas Begley, an IRA bomber killed in the Shankill Road attack.

In London, Mr Major told the

House of Commons the perpetrators of this week's terrorist attacks would be "hunted down and subjected to the full severity of the law."

The government, however, ruled out the reintroduction of internment (group detention without trial). Sir John Wheeler, the Northern Ireland security minister, said there were "no simple, easy solutions."

Downing Street continued to distance itself from the peace proposals put forward by Mr John Hume, leader of the mainly Catholic SDLP, and Mr Gerry Adams, president of Sinn Féin, the political arm of the IRA.

Officials said Mr Major was willing to talk to Mr Reynolds, but was more interested in

reviving the stalled "three strand" talks under the auspices of the Northern Ireland Secretary.

In an indication of the sensitivity with which the issue is regarded in London, Downing Street said neither Mr Major nor Mr Reynolds had asked for a bilateral meeting in Brussels. British officials said the Brussels summit offered a "useful opportunity" for a meeting, but stressed that there was no formal agenda.

Downing Street also continued to maintain that Mr Major had not seen the Hume-Adams proposals, and was unaware of the details of the initiative.

The Hume-Adams proposals are regarded with deep suspicion by the Ulster Unionist party, which is committed to

sustaining the Conservative government in office.

The government has denied that it did a deal with the unionists to avoid a Commons defeat in a confidence debate on the Maastricht treaty earlier this year.

However, the Commons procedure committee is expected to decide today whether to respond to unionist demands for the establishment of a Northern Ireland select committee. Irish officials said the Shankill Road bombing had "seriously damaged" the Hume-Adams initiative, but Dublin appeared keen to keep the proposals alive.

Mr Spring said the two governments had an "obligation" to look at "any opportunities" to bring about peace in Northern Ireland "despite the (IRA) atrocity of last weekend."

Mr Spring also said the two governments should consider responding to unionist demands for the publication of the details of the Hume-Adams initiative.

Rail campaigners protest at sell off

MORE THAN 1,000 campaigners opposed to the privatisation of Britain's state railway protested at Westminster yesterday, while union leaders described the sell-off plans as "utterly destructive and sheer lunacy", writes Roland Radd.

The protesters came from as far as Scotland. Pro-rail supporters travelled on a special campaign train that left Glasgow in the early hours and called at Edinburgh, Newcastle-upon-Tyne, Darlington, York and Doncaster before arriving in London.

Yesterday's protest coincided with a survey of rail commuters by the Save Our Railways group showing that one in five could switch from train to car if fares went up as expected under privatisation.

Mr Jimmy Knapp, general secretary of the largest rail union, the RMT, said: "There is

a deep and growing anger about the sheer lunacy of the government's proposals."

He warned: "They are unworkable and untried and they will undoubtedly lead to closure of services."

Mr Richard Rosser, leader of the white-collar TSSA, said: "The government are not so much playing at trains but playing with them in an utterly destructive manner."

Both union leaders backed calls for Tory MPs to rebel and force through an amendment to the Railways Bill, which would allow British Rail to bid for franchises in a privatised network.

The calls have come from the opposition Labour and Liberal parties which are trying to wreck the government's rail privatisation legislation currently going through parliament.

Petrol retailers seek changes in contracts

INDEPENDENT petrol station owners yesterday demanded substantial changes to their contracts with major oil companies because of growing competition from discount outlets, particularly those at supermarkets, writes Robert Corrine.

The Petrol Retailers Association said failure to reach an agreement on new terms could prompt demands for an investigation by the Office of Fair Trading.

Mr Phil Richardson, association president, said the problem stemmed from the fact that under current contracts, large oil companies exercised a high degree of control over the

Stage set for cabinet battle on cuts

By Philip Stephens, Political Editor

A REPORT by a committee of senior ministers recommending deep cuts in central government budgets for local authorities, defence, housing and transport last night set the stage for a full-scale cabinet battle tomorrow over public spending.

But a partial retreat by Mr Kenneth Clarke, the chancellor of the exchequer, over the scale of cuts in the armed services has defused a threat by Mr Malcolm Rifkind, the defence secretary, to demand a fundamental review of Britain's security commitments.

Mr Peter Lilley, the social security secretary, has resisted successfully treasury demands for the means-testing of child benefit. But he has accepted cuts in mortgage interest payments to unemployed homeowners and other measures.

He is also battling with Mr Clarke over

compensation for the elderly and poor to offset the impact of Value Added Tax on domestic fuel.

Mr Clarke was yesterday finalising the recommendations of EDX, the cabinet committee charged with reconciling the competing claims for resources from Whitehall departments with a commitment for a freeze on overall spending.

Mr Clarke wants an agreement to underpin the ceiling for 1994/95 by up to £1bn. The aim would be to convince rank-and-file Tory MPs that tax increases in next month's Budget were not a substitute for harsh decisions on public spending. But senior ministers said yesterday that two months of discussions within EDX had failed to achieve anything resembling a firm settlement.

"EDX has made recommendations. It has not reached a settlement", one minister said last night. The final deal will have to be hammered out by tomorrow's cabinet or one next week.

Although the gap between Mr Rifkind and Mr Clarke has narrowed, the defence secretary will appeal to the cabinet to protect more of his budget in 1996/97. He will be joined in a call for more favourable treatment by Mr Douglas Hurd, the foreign secretary, and other ministers.

But whatever the outcome of the cabinet's deliberations the budgets for local authorities, defence, housing and transport are expected to emerge as the biggest losers. Local authorities cannot expect any real increase in the £41bn the government has estimated they should spend in the present financial year, while housing associations will be the main victim of large cuts in the £28bn a year housing budget. Mr MacGregor faces the prospect of sharp reduction in both his road-building and rail budgets. Mr Rifkind is resigned to cuts of around £1bn by 1996/97 in the £23bn defence budget.

MANAGEMENT

The US steel industry is taking part in an experiment in employee involvement, writes Richard Waters

The unions step on board

After 10 years of losses, layoffs and falling market share, the US's biggest steel companies have come up with a new way to improve their competitiveness: allow union representatives on to their boards.

Five of the six big integrated steel companies have already concluded agreements with the United Steelworkers of America (USWA) in a move which amounts to one of the most far-reaching experiments in employee involvement undertaken in any US industry. US Steel, the country's biggest producer, could follow suit later this week, if company and union negotiators meet their deadline of reaching a new labour agreement by Friday.

No other US industry has ever experimented with union involvement on this scale. Individual companies, most notably Chrysler, have conceded board seats to their unions in the past, but the practice has never taken root across an entire industry before.

The agreements also provide for union involvement in committees at all levels of management.

Yet the benefits of worker participation on this scale remain unproven. Will it make any difference to the flagging fortunes of the big steel companies, which are struggling to catch up with newer, un-unionised competitors?

And will the changes turn out to be anything more than temporary, just another phase in "Big Steel's" long decline?

The US's six big integrated steel companies (those involved in every step of steel production, from making the coke for use in their furnaces, to rolling out and coating finished steel sheets) have already cut their combined workforce from 270,000 at the start of the 1980s to fewer than 100,000 now. They have invested more than \$13bn (£9.3bn) between them in the past decade to become more efficient.

However, with overcapacity in the worldwide steel industry and the inroads made by the small "mini-mills" and reconstituted mills at home, a return to sustained profitability remains elusive.

In new six-year accords struck with the USWA this summer, four companies - Inland, followed by Bethlehem, National and Armco - agreed to appoint union representatives to their boards and to adopt extensive co-management arrangements. A fifth, LTV, has activated a similar plan since coming out of bankruptcy protection at the end of June.

There are two ways to explain the development. One - espoused publicly by the companies and the union - is that giving workers more of a say will lead to more efficient production methods and make the companies more competitive. "It's kind of an unorthodox way of deal-

ing with the problem," says John Jacobson of Wefu Group, an economic research company. "But they haven't been very successful with anything else they've tried."

The other, more cynical, view is that companies find it easier to lay off workers or overhaul their working practices if they adopt a less confrontational approach to labour relations: it is difficult for union leaders to oppose big changes if they have been closely involved in their origin.

According to some labour relations experts, this motivation may lie behind many of the attempts in the US at employee participation since the mid-1980s.

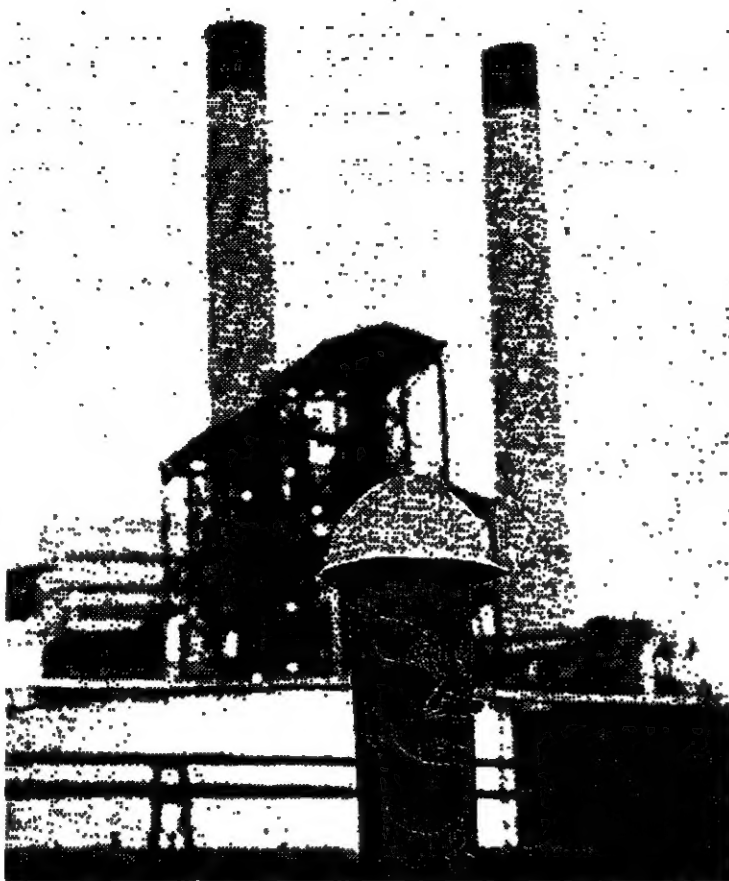
"When companies have excess capacity, this could be a way of making the cutbacks more palatable," says John Dunlop, a former US labour secretary and chairman of a commission set up by the Clinton administration in March to look at the legal framework for labour relations in the US.

Either way, the agreements should have an indirect benefit for the steel companies in the short term. In return for the promises of greater participation in management and a guarantee that there will be no compulsory redundancies, steelworkers have agreed to a freeze in basic pay for the next two years and to greater job flexibility.

But it is less clear whether the participation agreements will yield the sort of sustained productivity improvements their supporters claim. There are at least two reasons why some of the hoped-for productivity gains could prove elusive.

First, and perhaps most important, old attitudes on both sides of the union/management divide die hard. Labour relations in the industry have traditionally been adversarial, says John Goodwin, manager of US Steel's Gary, Indiana, plant, the biggest in the US. "We've got a long way to go - we've got 80 years of history to overcome."

Second, there are very different perceptions of what closer union involvement in management actually means. Will the union's repre-



The hot and cigar: a suitable image of steel workers in the boardroom

sentatives have an influence over strategic and other decisions taken by the big steel companies, or are they simply being invited into the executive suite to observe?

Both sides talk glibly of a new-style "partnership" approach to management, preferring to hide behind this piece of management-school jargon rather than face up to the real question: does the new approach amount to a form of co-management, or simply as an extended exercise in worker communication?

"What they [the union] want is to see what's happening and why decisions are made, rather than trying to take decisions themselves," says

agers whose responsibility it is to meet certain targets, he says.

But other union representatives talk of more positive involvement and it seems unlikely that they would sit passively as decisions were taken that would harm their members' interests.

The difference of perception is most acute when it comes to the question of board-level representation. The steel companies point to the legal responsibilities of the union's directors will face.

"The first, foremost and only obligation of every director is to represent the interests of shareholders," says an official at Inland Steel.

Union members, though, cling to the idea that the directors they nominate will represent their interests, not those of the shareholders. To some, it seems like an opportunity to fight the old union/management battle from the inside. "Boards give their management people golden handcuffs - we hope we will now be able to put a stop to things like that," says Andy Hopkins, a tractor driver at Bethlehem's Burns Harbour plant and a part-time union official.

Doug Frazer, a former head of the United Auto Workers, agrees. In the 1970s, he became the first union leader to sit on the board of a leading US company when he was appointed a director of Chrysler. Union-appointed directors are there to fight for the interests of workers, he says. They also have a right to tell their members everything their boards do.

"I said that as far as I was concerned, nothing was confidential. There's not enough openness in these large organisations."

Such comments send shudders through secrecy-minded executives. But, in practice, the union-nominated directors are likely to be able to exert little direct influence, even if they wanted to.

"It will not make a difference to the way the company operates. But if it makes all our employees understand better why decisions are taken, it will help," says Curtis Barnett, chairman of Bethlehem.

It is also questionable whether the new arrangements will stand the test of time. The history of US labour relations is littered with similar examples of experiments at employee involvement that did not last.

It takes a crisis to encourage companies to let workers on to their boards, says Frazer. When Chrysler had returned from the brink, the union seat was quietly dropped. "I think they stole that seat from us," says Frazer.

If all the big steel companies agree to let union representatives on to their boards, the experiment this time could at least prove longer lasting.

Personnel crisis? what crisis?

David Goodhart explains why the role is becoming less pigeon-holed

The recession has been rather kind to Britain's personnel practitioners. The annual conference of the Institute of Personnel Managers, which opens today in Harrogate, is the biggest yet staged.

The IPM is expecting 1,800 delegates and now claims 52,000 members out of a total number of personnel managers estimated at 100,000. And the latest issue of Personnel Today reports that personnel vacancies are on the rise again.

On the face of it this seems strange. Larger companies might have temporarily boosted their personnel function to cope with the large redundancy packages of the recession years, but the longer term outlook for the traditional personnel function is supposed to be poor.

The conventional view of decline states that as the importance of human resource management has been recognised, so large parts of the personnel function have been devolved to line managers.

Geoff Armstrong, now head of the IPM and a veteran of industrial disputes in the car industry, recalls: "In the 1960s and 1970s we had constant bargaining about change and line managers abdicated the personnel function to big, centralised personnel departments."

Most of those big departments have been shunned down or even closed. And not always because of a belief in the virtues of decentralisation. When hard-nosed conglomerates such as Hanson Trust took over a company in the late 1980s one of the first things they did was to close the central personnel department.

In smaller companies, too, the specialist personnel function has often disappeared completely, creating more work for employment lawyers.

"A lot of companies have lost all internal expertise on employment law matters which law firms have capitalised on," says Paul Nicholls of Dibb, Lupton and Broomhead which has increased its employment law staff from four to 14

over the past two years. Privately, many senior personnel managers admit these changes have led to an identity crisis for the personnel function. "Personnel often has a rather dated 1970s image, still trying to find a balance between labour and management," says one. "The personnel function is being pulled in so many different directions but it really has got to prove its hard-edged business advantage," says another.

Sometimes this identity crisis is played out in the conflict between "soft" personnel people trying to balance interests, and "hard" human resource managers trying to improve efficiency, often in a non-union environment.

It also seems to be afflicting the government-appointed lead body which is having trouble defining what personnel managers actually do in order to establish National Vocational Qualifications for them.

John Hougham, now head of Acas and former head of personnel at Ford, is suspicious of the hard-liners and fears the decline of the more traditional personnel function.

"The personnel function is showing some signs of losing its organisational status in some quarters," he warns.

But even if the traditional, "collectivist" personnel manager is disappearing, the personnel function is adapting to survive, as the continuing growth of the IPM seems to show.

Peter Reid, head of employment affairs at the Engineering Employers Federation, says that personnel is now less pigeon-holed than it used to be and that a spell in personnel is increasingly useful for a board-level director.

Indeed, if board-level representation is an indicator of the status of the personnel function then there is little to worry about.

According to the Cranfield School of Management, 49 per cent of all private and public organisations employing more than 200 people have a personnel representative on the board, up from only 40 per cent at the start of the 1980s.

BUSINESS AND THE ENVIRONMENT

Signs of order spring from chaos

Argentina is starting to take green issues seriously, but progress is slow, reports John Barham

When seven people died last month in a working-class suburb of Buenos Aires, overcome by highly toxic fumes from industrial waste which a company had dumped into drains near their homes, the tragedy featured nightly on television news programmes.

But within days, judges, politicians and regulators began squabbling over who was responsible for the disaster and who should be hunting down the owners of the waste disposal company blamed for the incident.

Meanwhile, the government felt compelled to "do something" and dusted off a requirement - never previously enforced - that companies handling hazardous waste must register with the Natural Resources and Human Environment Secretariat.

However, after a few weeks, both the media and the government had forgotten about the incident.

Sadly, nothing about this event was unique. Every time an environmental accident hits the headlines, as frequently happens, competing bureaucracies start rival investigations and issue a blizzard of rules and regulations which are soon forgotten.

Argentina's most important body of environmental laws was born under similar circumstances. Reports in 1991 that industrial waste from developed countries was being dumped in Argentina led to a new toxic waste law in January 1992. The government also included environmental offences in the civil and criminal codes.

Basically, the law established a cradle-to-grave rule making companies responsible for the safe disposal of waste. But it took the Environment Secretariat 17 months to publish detailed regulations making the law enforceable. Until then, companies were in legal limbo.

The law is contradictory and confusing. Jenny Valdivia, an environmental consultant, said it "is practically a copy of US legislation, but conditions [there] are not similar. There is less technology and there are fewer treatment

possibilities". And its definition of toxic waste is so broad that anyone with an open oil can in their garage is violating the law.

Until recently, none of this mattered much. Argentines were too busy coping with military repression and economic instability to worry about the environment. Advanced legislation introduced during the turbulent 1970s, such as the clean air law of 1975 and a decree establishing the "polluter pays principle", were rarely enforced.

Now, with democracy and economic stability more firmly established, people are demanding a halt to environmental degradation, particularly of water sources. In Buenos Aires, untreated sewage is poured into tributaries of the River Plate. In the city's industrial belt, factories, slaught-

houses and tanneries dump waste ranging from animal blood to heavy metals into the rivers. Environmentalists claim companies often have waste treatment units but do not use them. People who live in the industrial belt suffer from dysentery, gastroenteritis, hepatitis and worms. The water table is contaminated.

Raymond Florin, executive director in Argentina of the Business Council for Sustainable Development, the body created by the environmentally-conscious Swiss businessman Stephan Schmidheiny, says demand for change "is coming from all over the place - people, politicians, judges, NGOs, the state, the media - and very quickly. Great changes are taking place [so rapidly] that people don't know what to do".

Companies are struggling to adapt. "Six or seven months ago nobody talked about the environ-

ment. Now you talk to any manager and he'll have something to say about it," says Florin. However, he admits that even large companies are still unwilling to set up environmental control departments.

The government is changing slowly. Its Environment Secretariat is staffed with political appointees who have little understanding of environmental policy. The secretariat's 1993 budget of \$19m (£12.5m) is half the sports budget. Even the government admits the courts are slow, inefficient and corrupt. Thus offenders are rarely punished. Amid this chaos, however, order is beginning to emerge. More rational economic organisation is a big part of this.

The government has privatised environmentally sensitive steel, chemical, energy, water and petrochemical industries. Before, these companies were run by authoritarian bureaucracies which disregarded the law and were not publicly accountable.

Privatised utilities are now changing consumers the real cost of water, electricity and gas - which the state once provided at artificially low prices that discouraged conservation.

As well as buying state assets, private companies also took on the state's environmental liabilities. Independent government regulators are starting to enforce environmental and quality standards that were once ignored. Some business people admit that if they had realised the size of these liabilities, their privatisation bids would have been much lower.

Pedro Tarak, executive director of Fundación ARN, a Buenos Aires environmental foundation, says individuals, associations, local government and congress are demanding greater participation in policy-making and enforcement. Even the much-criticised Environment Secretariat is reforming and hiring professionals.

Argentina has a long way to go. Accidents like the one that cost those seven lives will recur. Tarak says "unfortunately we still need more situations [like that] so we all understand the need to get organised".

The Clinton administration's new proposals to encourage reduced-risk pesticides represent a comprehensive reform package which is likely to alter radically the way pesticides are used in the US.

In response to increased pressure for new rules by environmental and health activists, the new law would impose a tough, uniform standard for all foods. The proposal would scrap the 35-year-old Delaney Clause, which poses stricter rules on the use of pesticides in processed foods than in fresh foods. In its place, the proposed new law would:

- Establish goals for the reduction of pesticide use by 2000.
- Eliminate the consideration of "economic benefits" in the pesticide approval process.
- Enhance enforcement.
- Give greater priority to safer and reduced-risk pesticides.
- Require high-risk pesticides to meet the safety standard within three years and all other pesticides within seven years.

The package was put together against a background of growing evidence that pesticide levels in the US are too high for the safety of infants and children. It was also a response to increasing concern about the ecological impact of toxic pesticides.

However, the proposed regulations are worrying for farmers since a number of existing pesticides would be rendered illegal. In response, farmers would be forced to find alternatives to keep their crops insect- and disease-free.

Propitiously, a new generation of pesticides is beginning to make its way on to the market. A number of companies are investing heavily in the development of low-risk pesticides, which range from genetically-altered plants and bacteria to wider use of naturally-occurring pesticides.

"We need to consider alternatives to traditional pesticides," says Frederick Betz, a senior biologist at the Environmental Protection Agency. "Fortunately, there's a lot already on the market and a lot which will soon become available. I think the production of reduced-risk pesticides will boom over the next few years."

The Food and Drug Administration has promised speedy review of pesticides which fall into the reduced risk category, in an attempt to move products quickly from the research laboratories into farmers' fields. As a result, a flood of new, alternative pesticides may be approved in the next few years.

One of the most novel areas of research is in pheromones, chemicals which influence the sexual behaviour of insects. Pheromones,

US plans to minimise the use of high-risk insecticides have spawned a new generation of safer products, writes Victoria Griffith

Assault on pesticides



Farmers are worried that a number of existing pesticides will soon become illegal

which are harmless to humans, can be used to lure insects into traps, or can be released in concentrations large enough to disturb mating patterns. "If we put out enough, the insects can no longer use the pheromone as a signal to find their mate," says Betz.

One US pesticide manufacturer, Ecogen, has identified more than 200 insect-specific sexual hormones and is searching for ways to use them effectively in the field. "We like to put them in a form in which they can be sprayed, so they'll be more practical," says David Olson, Ecogen's director of regulatory affairs. "We also need to have them vaporise slowly, so they'll be effective

over the course of a few weeks." As a possible solution, Ecogen has designed plastic microcapsules which can be used in a spray form and dissolve slowly over time.

Another important development is the cultivation of plants which are genetically engineered to resist pests. A number of companies are conducting research in this area and several have to offer genetically-engineered seeds for sale within the next few years.

"Nature produces chemicals which are poisonous to certain insects, but not to humans or beneficial pests," says Mike Sund, spokesman for Cibacoseeds. "We're trying to create plants which pro-

duce these chemicals themselves."

Cibacoseeds, part of the Swiss Ciba group, is working jointly with Monsanto to develop a maize plant which is resistant to the common and destructive pest, the European corn borer. Monsanto has programmes in place for cotton and potatoes as well as maize and believes this method, besides being good for the environment, will be extremely effective.

"Using traditional exterior insecticides can be a hit or miss thing," says Frank Serdy, regulatory affairs director for Monsanto. "But if the plant itself is excreting the chemicals, the insect gets a load of toxins with every bite. Genetically engineered plants are the wave of the future in pest control."

Manufacturers are also using genetic engineering to alter naturally occurring bacteria, or microbials, which act as toxins to certain insects.

"These bacteria are well-established as safe pesticides," says Janet Overholt, manager of regulatory affairs for Novo Nordisk. "But there is a lot of room to improve their efficacy."

Many of the bacteria, for instance, lack stability in the field. They are often sensitive to light, and may last no more than a few hours. Others are not as target-specific as desirable. The pesticide companies are seeking to enhance their effectiveness.

However, not all groups are convinced that genetic engineering is the solution. Despite strong support for these programmes from the Clinton administration, activists are already organising consumer boycotts against genetically engineered food products. Ironically, the new, reduced-risk pesticides may encounter more opposition than the high-risk products they will replace.

The solution, according to the pesticide group EcoScience, is to stick with natural pesticides. The company researches naturally occurring pesticides in the field and packages them as pesticides. One product, a fungus which was originally found in Iowa, sticks to roaches, eventually causing death. Another bacteria is effective in eliminating post-harvest disease in apples and other tree fruit.

Microgen has also discovered a native maize species which is resistant to the corn borer and is using cross-breeding methods to enhance the resistance of cultivated plants. But these solutions are limited. Moreover, because insects tend to build up resistance to pesticides, a wide range of products is needed.

"The key is to use one insecticide for a while and then switch to another, rotating them," says Serdy. "No single pesticide will provide the final solution. That's why we need to look at all the alternatives available."

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ARTS
GUIDE

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Television / Patricia Morison

Saddam's unseen victims

VIEWPOINT 93: Saddam's Killing Fields (Tuesday, ITV) was a poignant reminder that what the lens does not see the heart does not grieve over. It showed how different have been the experiences of two groups of Saddam Hussein's opponents - the Kurds and the Shia of southern Iraq.

The luck of the Kurds began to turn when the cameras focused on the poison gas victims in the streets of Halabja. The cameras were back in force to film the Kurds' exodus to the mountains, stumbling through the mud and snow. Those pictures struck a chord in the outside world; emotion was translated into action and the Kurds - at least in the short term - are safe.

The documentary, filmed in Free Kurdistan and Iran but not Iraq, placed together evidence of the scale and viciousness of the Iraqi army's reprisals, said by the Kurds to have claimed 300,000 Shi'ite victims in the *infidels* 1981 alone. The colossal bad luck of the Shias is that since the crushing of their *infidels*, they have been hidden from the world's sight. The programme examined the genocidal Iraqi policy towards the Marsh Arabs and argued that the idea of a safe haven in

the south must be resurrected. The Marsh Arabs, said to number 70,000, face the extinction of their unique way of life as their villages are rocketed, the waterways are poisoned, and the buffaloes, fish and reed-beds die. The chief external witness to the Marsh Arabs' destruction have been satellite photographs of land which is now brown and lifeless, the effect of Iraq's notorious drainage project. It was presented to the UN as an agricultural improvement scheme, but human rights observers are convinced it is an instrument of genocide.

An amateur video made six months ago showed Marsh Arabs appealing to the UN and US for help, above all for the canals to be bombed so that the water returns. The hopelessness of these people was eloquently expressed by the bitter words of one refugee: "They come to film us and set us to music like the TV comedy they think we are."

The UK's Foreign Office minister Douglas Hogg explained with wondrous equanimity that there was no possibility of external intervention although "the process" will probably take some time. It is at least possible that within the timeframe Saddam may fall. To hear genocide described as "a

process" gave a small chill. My mind jumped back to last Wednesday and the first part of *Thatcher: The Downing Street Years* (BBC2), in which that lady lambasted the Foreign Office and its "whole culture" based on negotiation.

The Thatcher documentary is guinea-a-minute stuff. With the second instalment screened tonight and such reams of comment already written, I will not dwell on episode one except to say that the gender aspect was particularly interesting. During her time in office Lady Thatcher showed little interest in women's causes. Accepting membership of the single-sex Carlton Club was just one example of her lack of solidarity. Even so, I thought Lady Thatcher's observations about the prejudice she encountered for being "that woman" was telling.

Mrs Thatcher used sex as a weapon in her rise, but it also helped others to belittle her and it played a part in her downfall. There is meat there for every woman who operates in a male environment, however hostile she is to Thatcher's political values, to ponder.

The Foreign Office came in for a pounding in *Dispatches* (Wednesday, C4), a gripping dramatisation of Lord Justice Scott's inquiry into the arms

for Iraq scandal. The programme had actors impersonating figures such as David Gore-Booth and William Waldegrave at the most uncomfortable moments of their grilling by Scott and Presilly. It made a compelling case for what is to come when Lady Thatcher and the Prime Minister appear.

At some time I have been asked (possibly by my credit card company) for my mother's maiden name as a way of ascertaining my credentials over the telephone. *Panorama: Secrets for Sale* (BBC1, Monday) showed that no question, however arcane (dog's name, favourite pudding), could protect personal data.

Panorama filmed a ferret character called Robert Hemphill using a lens concealed in a rolled umbrella. His company is one of many which offer to obtain details of bank accounts, credit cards, police records, National Insurance and National Health records. *Panorama* set Hemphill to penetrate the private details of four people, among them trade union secretary Rodney Bickelstaff and Lord Parkinson's former lover, Sarah Keays. The four were amazed to dis-



A threatened world: a rare recent picture of the Marsh Arabs whose plight was detailed in Saddam's Killing Fields on Monday night

cover the speed with which secret information could be produced. Hemphill, unaware of the umbrella lens, explained that he could gain access to the police computer at Hendon which holds criminal records. He told his *Panorama* contact: "It's literally bribing a police contact; it is that simple".

The scam revealed, Hemphill high-tailed out of the office pursued by his *Panorama* interviewer. Some aspects of this kind of intelligence gathering come close to criminality,

but many are beyond the reach of the Data Protection Act or any other legislation. Is the open society in one respect effectively already here?

What a relief to turn to more warlike matters: the fate of vanished civilisations, examined on *Equinox: Out of the Past* (C4, Sunday). Who could envy the modern archaeologists after a programme in which we saw them spending years counting pine seeds and measuring microscopic variations in the cutting edge of

obsidian knives? The end result, however, is an important jolt to the old chronology of the collapse of Mayan civilisation in Central America.

It now seems that the Mayans did not suddenly vanish. Their kings departed but the ordinary folk carried on, planting their maize for two centuries. But when the end came, in the 12th century AD, it was over-population, salinisation, and soil exhaustion which put paid to a brilliant, cruel civilisation.

The moral is one that archaeology is increasingly coming to realise. *Pace New Age* romanticism, many an ancient peasant civilisation did not live in joyous harmony with its environment. This was a brilliant documentary, untricksy, even old-fashioned, and there was no presenter but only bearded archaeologists with a far away look in their eyes. Yet for sheer cerebral excitement, it was quite the best thing I have seen in a long month supine in front of the TV.

DOUG Elkins is a wacky klutz with a fabulous talent and no sense of structure. This American dance-maker first brought his work to Dance Umbrella in 1991; last weekend he and his company returned. Watching his work is bewildering. Two years ago, I suspected that he was the most marvellous young dance-maker to have come along since Mark Morris; now I am sure that he is. I am also sure, however, that he never bothers to turn his dances into choreography.

Almost any phrase in Elkins' work is a hilarious but thrilling fusion of contrasting traditions. Sometimes, he adds yet another layer of contrast by setting these dances to music from another culture (eg Indian) or era (eg Handel). His dances are a complete mix - skinny or plump, short or tall, long-haired or bald - and the dances he gives them may be straight, gay, neither or both. Ironies abound; campness too. Yet the image he sets onstage is one of happy consensus, in lively harmony with the music.

In these respects, Elkins is a classical artist. His work places itself at the ends of several tra-

ditions, and occasionally suggests that he knows his own kinship to George Balanchine, Merce Cunningham, Paul Taylor, Twyla Tharp, Mark Morris, and others. The resemblances occur in fleeting references that enrich his work. Much more obvious and important are the basic virtues that his dances often show: seamless phrasing, steady current, rhythmic pulse. His dancers look like folk having a good time in a bisexual New York club and like artists attending to niceties of musical detail and dance style.

I like best his suite of Latin dances, *A Cereza de la Escuela*. What rare bliss to find a choreographer alert to the metres of the cha-cha, the mambo and more. None of these dances were pure Latin, but all of them were much closer to true Latin style than any of what is practised on the professional ballroom circuit. *More Wine for*

Poliphemus, though the programme dates it as new this year, incorporates material we saw two years back. Now, as then, my jaw drops at the impudent musical wit with which Elkins mixes Charleston, the twist, breakdancing and ballet to John Sutherland's recordings of Handel arias.

You watch these ingredients being so uncannily assembled, your senses ravished by first impressions, you tingle with anticipation - and then you watch this young chef pour his cooking down the drain.

In 1991, I hoped that Elkins' feckless failures of construction simply suggested that he had not yet got round to addressing larger matters of choreographic craft. In 1993, it is but all too plain that Elkins thinks that not being organised is cute. His ordering of them is full of obvious, live-show attempts at simulated clumsiness. Though his

dances are no end of fun to watch moment by moment, they win only a spattering of final applause. Too flip.

His work has made me blink tears of sudden wonder, and laugh aloud with incredulous joy. Of the rare calibre of his talent, I have no doubt. Ultimately, however, it filled me with despair.

■■■■■

Shobana Jeyasingh is an Indian choreographer who lives and works in Britain. Her dances employ the traditional Indian vocabulary of the Bharata Natyam style, but she uses modern Western music and many structural features of modern Western choreography. This season has invited Richard Alston to make a place for her six dancers.

Alston is the finest maker of sheer dances in Britain today, and watching his *Delicious* *Arbour*, choreographed to Purcell music, is a marvellously ironic experience. For these dances both revivifies Bharata Natyam - and yet are clearly not Bharata Natyam. They feel utterly Alston - while looking utterly unlike anything he has made before.

The ironies of *Delicious* *Arbour* lie mainly in its rhythms and its musicality. Alston has applied features of Indian dance metre to the radiant baroque measures of Purcell, sometimes moving slow against a faster beat, or in rapid embellishments around a slower beat, but always revealing its inner processes. In his beauty that Jeyasingh's six dancers seem to claim Purcell as their inheritance.

Jeyasingh herself has choreographed *Romance* - with footnotes. But her refined and clever organisation of traditional dance material seldom takes off as sheer dance, or creates a stage world of its own. When Alston uses her dancers, they look girlish, shy, but sharply individual. In his light material, they look like studious, inhibited acolytes.

ENGLISH National Ballet has just gained a new staging of *The Sleeping Beauty*. Produced by Ronald Hynd, it is essentially - and wisely - the traditional text which he knew as a premier danseur with the Royal Ballet. There is little innovation - Carabosse flies in and out, with no little panache, on wires; the trick is somewhat minimised by having the Lilac Fairy (in "anything you can do, I can do better" mood) join the Prince in a stunner lift-off at the end of the Vision Scene - and much sensible conservation. Petipa, as I never cease repeating, knew Best. I would query Hynd's need to bring in an extra Fairy at the Christening, in the cause of symmetry I'd guess, but also of musical crassness, because Tchaikovsky also knew Best. In much else we recognise the rule of good sense, and affection for a work that is a central truth about ballet itself. The score was very decently played by ENB's orchestra on Monday night in Southampton, where I saw *Beauty* at the Mayflower Theatre, and most significantly, the choreography was set out with commendable clarity by ENB's dancers.

It is some comment upon the

work - and the weeding-out - already undertaken by Derek Deane, ENB's new artistic director, that the lacklustre troupe we have been watching during the past few years has been so transformed. There is brightness and assurance to the work of the corps de ballet, and the Prologue's fairy variations were far more secure as expositions of classic style than anything the company showed us under the previous regime. If Deane can thus inspire his artists after a few months, we have much to look forward to. Such a masterpiece as *Beauty* will either enhance or utterly destroy its interpreters, but Hynd's love for the ballet, and Deane's sense of performance standards, have put the company on its mettle.

The design is by Peter Docherty. He has provided a setting of soaring pillars set against sky-scapes that suggest seasonal moods, with golden-leaved branches which feature significantly and beautifully in

the action. The visual effect is most poetic in the Hunting scene and the Awakening: autumnal magic is potent.

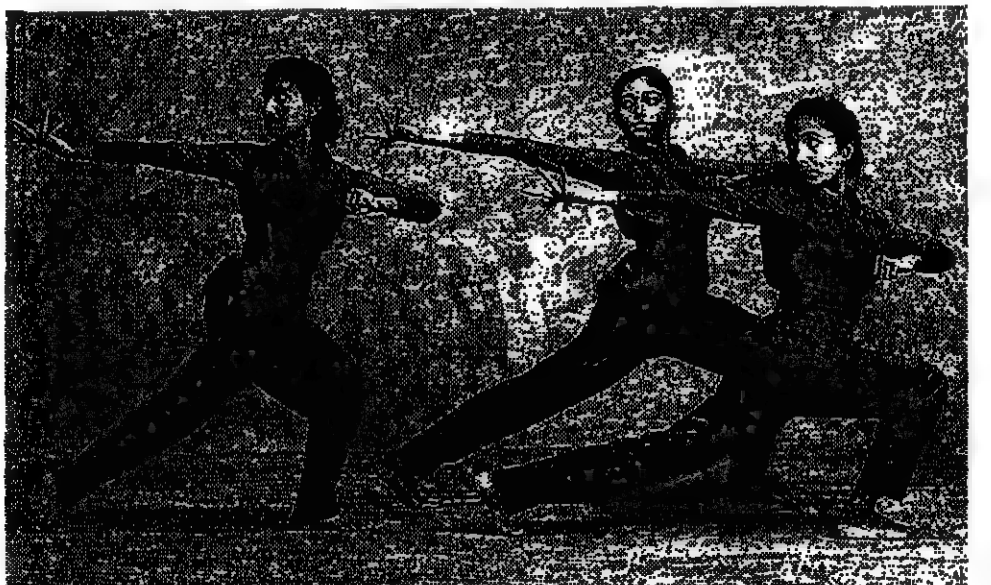
About his costumes I have certain reservations, more to do with fabric than cut or shape, for he follows the correct historical progress from Louis XIII to Louis XIV, and the Watteau-esque designs for the Hunt are splendid. But modern artificial fibres have an unnatural sheen, unvarying and unresponsive to light. They glare, and the solid blocks of courtiers in blue and solid aniline green in the Prologue, the lurking presence of luxury in gleaming bodices, do not give that feeling of impossible luxury and Versailles' elegance vital to *Beauty's* power.

The company performances are commendable because testimony to serious work and serious coaching. Hynd has made a charming trio for the third act jewels, well done by Josephine Jewkes, Graham Rowe, Stephen Sherriff, and I

saw very neat Bluebirds from Yet Sen Chang and Ambra Vallo. Carabosse was well and malevolently played by Kevin Richmond.

Aurora and her prince were taken by two new recruits: Cecilia Kerche from Brazil, and the Frenchman, Cyril Pierre. Miss Kerche is a secure performer, but I did not think her physique or her temperament revealed her as one of nature's Auroras. The ultimate and glorious demands of the role - the ballerina as incarnation of a classic ideal - have yet to be met in a reading I found un-nuanced. M. Pierre is a handsome figure and an admirable partner, but he did not show that princely dignity in dancing which makes the last act duet a portrait of a nobleman. The most satisfying performance of the evening came from Evelyn deSutter, returned to the company after several years, as the Lilac Fairy. Her delicate physique, the elegance of her style are a delight.

English National Ballet plays *Beauty* in Southampton this week, then visits Manchester (week of November 1), Liverpool (Nov 8), Bristol (Nov 16), Leeds (Nov 22).



Mixed cultures: the Shobana Jeyasingh Dance Company

OLIVER Goldsmith's *She Stoops to Conquer* entered the first division of English comedy when it was originally performed in 1773 and has stayed there ever since.

In its new outing, directed by Sir Peter Hall at the Queen's, it is playing at the very top, along with the best productions you can remember of (say) *The Importance of Being Earnest* or *A Midsummer Night's Dream*. The subtitle is *The Mistakes of a Night* which must have been picked up from Shakespeare, and Wilde plainly learned from it.

The play's strengths are its dialogue, its characters and even its plot: in short, everything you could ask for. Scarcely a word is wasted and it is remarkable how many of its lines remain colloquial to this day. "This is Liberty Hall", for example.

Goldsmith also had a wonderful way

with names: not only Tony Lumpkin, the young bumpkin of a squire, but also Digory, the man taken in from the barn to serve in the house.

In Hall's production there are at least three characters who are outstandingly drawn. Joint top are quite exceptional performances by Tom Beard as Marlowe and Emily Morgan as Kate Hardcastle. Marlowe is the well-bred man who has a way with women provided they come from beneath the stairs, but lapses into a Feydeau-like stammer when confronted by a girl of his own class. Beard plays him as if he is the star of the show. Perhaps he is.

Even Beard, however, would not be so good without Ms Morgan beside him. Her Kate is the reverse of Marlowe: she can't win him as her real self, so pretends to be the maid. Scenes of mistaken identity are frequent, hilarious, and exquisitely timed.

It may seem odd to concentrate on that pair when Donald Sinden is also in the cast, yet he seems happy enough to take a slightly secondary role in such company.

As Hardcastle, the genial father of Kate, he has a little trouble with his wig in the second act if he fell off. But it is a pleasure to hear his plummy voice again and to watch his magnificent stage presence.

"I love everything that's old," he says, "old friends, old times, old manners, old books, old wine." And, in this performance, that's the way it is.

There is a special delight towards the end when the late entrant, Sir Charles Marlowe, is played by Donald's brother, Leon. Watch them looking out from behind the screen together. Every theatrical device is there.

Queen's Theatre 071-494-5040

Theatre/Malcolm Rutherford

INTERNATIONAL ARTS GUIDE

BONN

Oper Tonight: Valery Panov's production of Prokofiev's ballet *Romeo and Juliet*. Tomorrow: Werther. Fri, next Tues: Lortzing's *Der Wicked Schütz*. Sat: Cav and Pag. Sun: Ken Russell's version of *Salome*. Mon: Otello, with a cast led by Vladimir Atlantov and Renato Bruson. Nov 14: first night of new production of *La Fanciulla del West* (0228-773667)

BORDEAUX

Palais des Sports Tonight and tomorrow: Karl Anton Rickenbacher conducts Orchestra National Bordeaux Aquitaine in Chopin's Second Piano Concerto (Eugene Istomin) and Bruckner's Ninth Symphony (5648 5854)

COLOGNE

Opernhaus Tonight, Tues: TanzForum triple bill, choreography by Jochen Ulrich (in repertory till

Nov 19). Tomorrow, Mon: Michelangelo Veltri conducts Tosca with Galina Kalina, Mario Malagnoli and Alain Fondary (in repertory till Nov 23). Fri: Ann Murray song recital. Sat: Billy Budd with Boje Skovhus in the title role and Victor Braun as Claggart (in repertory till Nov 27). Sun: René Jacobs conducts *L'incoronazione di Poppea*, with Patricia Schuman, Kathleen Kuhlmann, Jeffrey Gall and Curtis Rayam (0221-221 8400)

COPENHAGEN

Royal Theatre Tonight, Sat, next Mon: Alexander Gibson conducts David Radok's new production of *Peter Grimes*, with Stig Fogh Andersen, Tina Kiberg and Norman Bailey (also Nov 5, 11). Tomorrow, Fri, next Tues: three Balanchine ballets (tel 3314 1002 fax 3312 3692)

DUSSELDORF

Deutsche Oper am Rhein Tonight and Fri: La Cenerentola. Tomorrow and Sun: Der fliegende Holländer. Sat: first night of new production of ballet mixed bill, choreographies by Balanchine, Van Manen and Spoerl (repeated Nov 1, 6, 12, 13). (0203-300 9100)

FRANKFURT

Oper Tonight, Sun: Sylvain Cambreling conducts Peter Mussbach's new production of *Wozzeck*, with Dale Duesing and Kristine Gieselski. Tomorrow and

Sat: Così fan tutte. Fri: Il barbiere di Siviglia (069-236061)

Alte Oper Tonight: Heinrich Schiff, accompanied by Tzimon Barto, plays cello sonatas by Debussy, Franck and Beethoven. Next Tues: Leonard Slatkin conducts Salvi Louis Symphony Orchestra in works by Claude Baker, Beethoven and Richard Strauss, with piano soloist Rudolf Buchbinder. Nov 5: Jessye Norman (069-134 0400)

Jahresunterhalle Fri: Alban Berg Quartet, pianist Rudolf Buchbinder, plays chamber music by Janacek and Dvorak. Sat: Herbert Blomstedt conducts Bamberg Symphony Orchestra and Bavarian Radio Chorus in works by Brahms and Janacek (069-380 1240)

English Theater Katerstrasse Edward Taylor's thriller *Murder by Misadventure*, daily except Mon till Nov 20 (069-2423 1620)

GOTTHENBURG

Konserthuset Tonight: Rudolf Werthen conducts *I Fiamminghi* in works for chamber orchestra, including Elgar's *Serenade* and Britten's *Frank Bridge Variations*. Tomorrow: Hagen Quartet plays works by Schumann, Stravinsky and Mozart. Sat: Musica Vitae chamber orchestra plays Lutoslawski, Haydn, Leo Weiner and others. Next Wed, Thurs: Neeme Järvi conducts Strauss and Stenhammar (031-167000)

Stora Teatern Tonight, Fri, Sun: Robert North's new ballet *The Russian Story*, music by Tchaikovsky and Shostakovich. Sat: Gabriele Bellini conducts first night of Sonja Frisell's new production

of *Rigoletto* (031-131300/031-136500)

HAMBURG

Staatsoper Tonight, Sun: Gerd Albrecht conducts Götter Krämer's new production of *Götterdämmerung*, with Gabriele Schnaut, Siegfried Jerusalem, Matti Salminen and Günter von Kannen. Tomorrow, ballet mixed bill, choreographies by Lubovich, Ek and Neumeier. Fri, next Wed: Neumeier's version of *Swan Lake*. Sat: Die Zauberflöte. Next Tues: *Pärt* and other Estonian composers. Sun evening: closing gala with European Community Youth Orchestra and Bavarian State Opera Chorus, plus vocal soloists including Teresa Berganza, Francisco Araiza, Edita Grubarov and Yevgeny Nesterenko (089-4809 8614)

LYON

Opéra Tonight, Fri, Sat (also Nov 3, 5, 7): Maguy Marin's production of *Coppelia*. Tomorrow, Sun: Kent Nagano conducts Louis Elie's Offenbach adaptation, *Des Contes d'Hoffmann*, with a cast led by Daniel Galvez-Vallejo, José van Dam, Gabriel Bacquier and Isabelle Vernet (7200 4545)

MUNICH

EUROPAMUSICAL Throughout October, orchestras from more than 30 countries have been visiting Munich as part of a festival aimed at giving a sound-picture of Europe's cultural diversity. The festival comes to an end over the next five days with orchestras from Ireland, Austria, Romania, Switzerland and Estonia.

Most concerts take place at Gasteig. Tonight: RTE Concert Orchestra of Dublin plays works by John Field and Hamilton Hart. Tomorrow: Seiji Ozawa conducts Vienna Philharmonic Orchestra in Haydn, Bartok and Dvorak. Fri: Horia Andreescu conducts Romanian National Radio Orchestra in works by Enescu and other Romanian composers. Sat: Armin Jordan conducts *Orchestra de la Suisse Romande* in works by Eric Gaudibert (01936). Bartok, Debussy and Ravel, with piano soloist Martha Argerich. Sun morning: Estonian State Symphony Orchestra plays Tübin, Pärt and other Estonian composers. Sun evening: closing gala with European Community Youth Orchestra and Bavarian State Opera Chorus, plus vocal soloists including Teresa Berganza, Francisco Araiza, Edita Grubarov and Yevgeny Nesterenko (089-4809 8614)

BAVARIAN STATE OPERA Tonight, Sat, next Wed: La bohème. Tomorrow: John Coxon's ballet *The Taming of the Shrew*. Fri: Salome with Mara Zampieri and Edehard Wlaschli. Sun: Minkus' ballet *Don Quixote*, production by Ray Bara. Mon: *La nozze di Figaro*. Tues (Prinzregententheater): Waltraud Meier song recital (089-221316). The company's new intendant, Peter Jones, and music director, Peter Schneider, outline policy tomorrow evening at Gasteig in conversation with Munich critic Wolfgang Schreiber (089-4809 8614)

OTHER EVENTS New York Harlem Theatre presents *Porgy and Bess* daily except Mon at Deutsches Theater (089-5523

4360). Kammermusik has a new production of Thomas Bernhard's play *Am Ziel*, and repertory also includes Shakespeare's *Much Ado About Nothing* and King Lear (089-2372 1328). Residenztheater has new productions of *The Taming of the Shrew*, Ibsen's *The Wild Duck* and Chekhov's *The Cherry Orchard* (089-225754)

OSLO

Konserthuset Tomorrow, Fri: Eduardo Mata conducts Oslo Philharmonic Orchestra in works by Ravel, Chabaz and Dvorak, with violin soloist Emanuel Borsk (2283 3200)

STOCKHOLM

Konserthuset James Judd conducts Royal Stockholm Philharmonic Orchestra tonight and tomorrow in works by Franerle, Bartok, Ravel and Janacek, with violin soloist Knut Nikkanen. Sat afternoon: Hagen Quartet plays works by Haydn, Janacek and Schumann. Nov 7: Itzhak Perlman violin recital. Nov 11-20: Penderick festival (tickets 08-102110) Information 08-212520

Royal Opera First night tomorrow of Knut Hendrickson's new production of *La traviata*, conducted by Marco Guidarini, designed by Ralph Koltai, cast led by Lena Nordin (repeated Oct 30, Nov 1, 3, 5, 13, 16, 18, 20, 22). Repertory includes *Così fan tutte*, *Elektra* and Beryl Grey's production of *Sleeping Beauty* (tickets 08-248240 information 08-203515)

ARTS GUIDE

Monday: Berlin, New York and Paris.
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.
Wednesday: France, Germany, Scandinavia.
Thursday: Italy, Spain, Athens, London, Prague.
Friday: Exhibitions Guide.

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Saturday Super Channel: Financial Times Reports 0530
Sky News: West of Moscow 1130; 2230
Sunday Super Channel: West of Moscow 1830
Super Channel: Financial Times Reports 1900
Sky News: West of Moscow 0230; 0530
Sky News: Financial Times Reports 1330; 2030

Edward Mortimer



Mr Douglas Hurd should be pleased. For months the British foreign secretary has been trying to persuade the world to forget about Bosnia.

While brilliantly exploiting the presence of British troops "on the ground" to dissuade anyone else from trying to help the Bosnian government defend itself and its people, he has made it clear that in his view sending troops there at all was a rash policy, forced on the government by the media.

Visibly irritated by pressure to take a less neutral line, Mr Hurd has repeatedly mused aloud on the arbitrary spotlight that the media shine on some conflicts while neglecting others. He seems to take a morbid pleasure in enumerating all the other places in the world where wars are going on. "Why bother me with Bosnia," is his implicit message, "when this sort of unpleasantness is really quite normal? Tell us more about Tajikistan, or Georgia, or Angola, where things just as horrible are happening."

Mr Hurd should be pleased now because, in terms of media attention, the war in Bosnia is almost over. We hear about it mostly in the past tense, as an episode which poisoned relations between Europe and the US during the summer, and which both sides are now trying to put behind them.

But it is not over. It is as bad as ever. Sarajevo is still being remorselessly pounded by Serb shells. Its people are down to two or three hundred grammes of food a day (less than half what the UN considers a minimum). Winter is nearly here, but they have no fuel left and precious little shelter. The situation in other supposedly UN-protected "safe areas" is even worse. Thousands will freeze to death before they starve, though in many cases it may be a moot point.

In early August, Nato threatened air strikes if the "strangulation" and shelling of Sarajevo and other "safe areas" continued. But last week Nato defence ministers met, and air strikes were not even on the agenda. At least they had the honesty not to utter any more empty threats. They did not have to, because Bosnia is no longer headline news.

The precedent for Bosnia was Kurdistan. Television pic-

No news is bad news

In the absence of TV cameras, victims of aggression can be left to suffer

tures of the exodus from northern Iraq triggered western military intervention in April 1991, just as film of Bosnian Muslims in Serb concentration camps triggered the "humanitarian" UN operation in Bosnia last year. But the latter has been a feeble affair compared with the former. Saddam Hussein has by and large left the Kurds alone, because military action has taught him to take western warnings seriously. The Serbs and Croats in Bosnia have learnt the exact opposite. Even the Kurdish "safe

Thousands of Bosnians will freeze to death before they starve

haven" is still subjected, absurdly, to UN sanctions directed against Saddam's regime. But the Kurds are not Saddam's only victims. What he has done to the Shia population in the south, especially since the abortive uprising that immediately followed the Gulf war, is just as bad. But Hurd's Law applied. There were no TV cameras in southern Iraq during the uprising, and therefore no serious pressure on western governments to intervene.

Very late in the day, that omission was partially rectified last night, with the screening on British independent television of a documentary, *Saddam's Killing Fields*, made by historian Michael Wood. It included amateur video of the holy city of Kerbala, as Saddam's tanks moved in on it, and showed the more recent draining of the marshes into which the refugees fled. This

has destroyed hundreds of villages and the entire way of life of the Marsh Arabs. Saddam used all his usual methods, including, it now appears, chemical weapons.

Mr Hurd is right. Atrocities are not unique to Bosnia, or even Iraq. But what makes Bosnia and Iraq unique is the specific, undischarged responsibility of western powers, including the UK in both cases. The Shia uprising in Iraq was a direct consequence of the Gulf war. It happened virtually within sight of the victorious coalition forces, but they did not lift a finger, nor did their political leaders utter a word, to deter Saddam's forces from suppressing it. Much later, a "no fly zone" was proclaimed in southern Iraq, but Saddam has been able to continue his ruthless work without using air power. Only the threat of allied action against his ground forces could create a "safe haven" in the south comparable with that in the north. Then a provisional government for both north and south could be established and recognised, which would be a big step towards the liberation of the whole country.

As for Bosnia, it was virtually obliged to declare independence by the EC's recognition of Croatia and Slovenia. But the EC - which Britain in the lead organising peace conferences and supplying their chairmen - has prevented it from obtaining weapons to defend itself and has extracted concession after concession from its leaders as the supposed price of an imaginary peace. Now there is talk of reconvening the London conference, which last year reached "agreement" on various principles. None have been acted upon.

No doubt a peace conference will be needed eventually, but right now the Bosnians need a massive airlift of food, fuel and shelter materials to Sarajevo, and convoys that get through to the smaller enclaves. That in turn means that those who want to help must be prepared to use force, from the air or on the ground, against those who themselves use force to prevent supplies getting through. But the west, including Britain, now seems resigned to leaving southern Iraq in the grip of Saddam Hussein, while Bosnia freezes and starves to death. No wonder Mr Hurd is relieved when the media turn their attention elsewhere.

The special European Council meets on Friday to mark the entry into force of the Maastricht treaty on November 1. Some people would have us believe that this should be more of a wake than a christening. They would argue that the crisis in the exchange rate mechanism, resulting in August in fluctuations of plus or minus 15 per cent, has set back the cause of exchange rate co-operation and the single currency by many years, if not indefinitely.

Such a view overlooks the strong commitment most governments still have to European monetary union. The extent of this commitment can be seen in the absence of any moves by European governments to "make the most" of the wider bands by cutting interest rates and letting their exchange rates depreciate.

The temptation to do this at a time of recession is obviously considerable. So why have they not done so? The only credible explanation is that they are still determined to proceed to stage three of EMU and the creation of a single currency, and that this approach is indivisibly associated in the minds of governments with maintaining priorities as close as possible to their old, narrow 2.25 per cent fluctuation bands.

There are, however, dangers in sticking to this policy. The longer that monetary policies remain too tight for domestic economic recovery to take place, the more damaging the effects on the economy. In turn, the longer recession lasts, the greater the reduction in demand for currencies of stagnating economies. Moreover, in most European countries, budget deficits are high, leaving governments little room to manoeuvre their economies out of recession by stimulating demand.

The time is therefore right for some policy rebalancing towards looser monetary and tighter fiscal policy, with two crucial provisos. First, monetary policy should only be loosened in those countries where it is so tight, in relation to underlying economic circumstances, that it can be loosened without any risk of fuelling inflation. Second, policy moves in this direction should take place in the context of a European consensus on the extent and manner in which it could be done. It would, of course, still be up to each country to decide whether and how it wished to take such action. For governments to adopt

Sir Leon Brittan argues that EC convergence can be achieved without narrow ERM bands

Time to retune for Emu harmony



such an approach, they will have to be persuaded that attaining EMU does not depend on sticking as closely as possible to the former narrow bands. They will have to be persuaded that it is possible to have a sound monetary policy without relying exclusively on the external anchor. It will also mean overcoming the fears in many quarters about the dangers of excessive volatility if member states decide to use their new freedom to permit substantial movement in exchange rates. This could damage the single market in manufactured and agricultural goods as well as economic co-operation between member states. This is why any greater flexibility must be exercised within an agreed framework, which would not encourage competitive devaluations but only permit interest rates to be lowered where domestic monetary conditions justified it.

Friday's Council meeting provides an opportunity for such a framework to be put in place, and for the road to EMU to be redefined in a way that takes account of changing circumstances and that will also help a number of economies to move out of recession.

As a minimum, the Council must agree on the site of the European Monetary Institute, which will oversee stage two of EMU and report to its head. But this is not enough: it would enable Europe to comply only with the letter of the treaty, not with the spirit, and would not represent a move closer to a single currency in itself. Heads of government therefore also need to encourage the sort of changes in European economic management, which I have outlined, to take place.

They should not just restate their commitment to EMU, but take action to make it more likely. They should use the fact that stage two of EMU begins in January to strengthen policy co-ordination in compensation for the wider bands. The Maastricht treaty establishes that it is a key task of the EMI in stage two "to strengthen the co-ordination of the monetary

policies of member states with the aim of ensuring price stability". It also says that member states shall regard their economic policies as a matter of common concern and should co-ordinate them.

The European Council should therefore commission from EC economic and finance ministers (Ecofin), for the December summit, an outline economic strategy for member states and the Community as a whole, which provides enough flexibility to allow member states to rebalance their policies as necessary, while also reinforcing their co-operative nature.

ECOFIN could help this to happen by agreeing an overall target inflation range. Member states could then express this in terms of individual money supply growth limits which would act as an intermediate target in place of the exchange rate. ERM participants will

then find in many cases that their present rate of monetary growth will justify much-needed interest rate cuts, without injecting inflationary pressures into the economy.

This regime has a number of advantages, notably flexibility, since each member state will be able to follow the monetary targets it considers most appropriate, within the agreed overall discipline. Additional discipline will stem from the fact that the EMI, alongside the council, could provide a forum for discussion which would help to add further credibility to the pre-announced targets. In many ways this sort of scrutiny would be a natural extension of existing arrangements for submitting convergence programmes.

Nonetheless, fears about exchange rate volatility and the impact that could have on intra-EC trade are not to be discounted. It is understand-

able that member states should not want to trigger such volatility by interest rate cuts, but it is far from clear that exchange rates will move more erratically as a result of looser but informally co-ordinated monetary policy. Interest rate actions would once again be taken on the basis of a publicly announced anchor. And the maintenance of the present informal policy of sticking close to the old narrow bands is not likely to be a permanently viable option.

This alternative that I suggest would mean that there would probably be changes in the current central parties within the ERM. But, quite apart from the fact that that would help some countries to move out of recession, it would paradoxically bring EMU nearer, rather than push it further into the distance. In the first place this approach would promote closer monetary and economic policy co-ordination, which is an essential prerequisite for the move to EMU. But in addition, the new parties that would emerge from such a policy would be more firmly based on economic fundamentals than the present ones. As such, they could be more stable and realistic.

They would also lend themselves to an earlier return to narrow bands if that is desired, although a return to the narrow bands should no longer be seen as a necessary precondition for the final move to a single currency.

Before the recent upheavals it seemed reasonable to regard the gradual freezing of ERM parties as the best way of achieving EMU. But the principal lesson to be derived from the upheavals is that we were putting greater weight on the ERM than it was ever intended to bear or was capable of bearing. The ERM was intended by its founders to bring about greater stability but not to prevent realignments when changes in economic circumstances rendered this necessary. The use of an ever more rigid ERM as a way of forcing convergence was tempting but in retrospect doomed to failure.

Convergence must be attained by other means. This will in time lead to more stable exchange rates, based on economic fundamentals and, in due course, for those countries that are ready, the move to a single currency can be decided and implemented directly, without the artificial prop of years of a narrow-band ERM.

The author is the EC trade commissioner.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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Relief of poverty should determine aid

From Mr Martin Griffiths.
Sir, The disturbing impact of foreign policy on Britain's aid ("Logic was no match for foreign policy", October 22) comes as no surprise to those of us who recall the government's explicit intention in 1980 to "give greater weight in 1980 to political considerations."

In the reality of Aid report earlier this year, NGOs working with the world's poorest communities noted the World Bank estimate that 40 per cent of world aid was diverted from poverty reduction to middle and high-income countries "largely for political purposes". The Overseas Development Administration has recently taken a number of important steps to increase its focus on poverty. The Overseas Development Administration's council of development ministers will consider a proposal to increase the poverty focus of EC aid, initiated during the British presidency.

The record shows that, when the ODA is able to make poverty the priority, British aid can be very effective in areas such as humanitarian relief. The strategy and consistent support of the public for UK aid targeted on poverty reduction was echoed in a June 1993 Actionaid/Gallup Survey, which found 87 per cent of MPs wanted more attention to be given to this category of spending to aid for basic needs.

The National Audit Office report shows that the diversion of British aid for foreign policy purposes serves neither the interests of the poorest nor the taxpayer, nor indeed Britain's long-term commercial and political security. The government should end competition between the developmental, political and commercial interests in aid by stating explicitly (in line with the World Bank) that sustainable poverty reduction must be the primary determinant of British aid spending and the benchmark against which its success is evaluated. Martin Griffiths, director, Actionaid, Hamlyn House, Macdonald Road, Archway, London N19 5PD

Misguided DTI thinking on attracting investors

From Mr Graham Stringer.
Sir, Having injured Manchester by withdrawing the assisted area status so vital for gaining investment, Tim Sainsbury, the industry minister, has added insult by suggesting to the Association of Metropolitan Authorities that cities should stop promoting themselves abroad. He wants them to subjugate themselves to regional development organisations.

He wrote to the association on July 19, saying: "It is far better for local interests to concentrate on getting the product right, by the provision of suitable sites and infrastructure, so that they can convert investor inquiries into local success, and to contribute to the overall regional message put out by the RDO."

This would be an outrageous limitation, particularly when the government's inward investment campaign is under fire for stressing Britain's low wages rather than the positive advantages of our main cities. Most of Manchester's foreign investment flows from local strengths and local enterprise. US cinema giant UCI, for example, has taken office space in Manchester because of the

city's airport link to Los Angeles. And no doubt cities such as Liverpool and Birmingham could cite similar cases. Meanwhile, the Department of Trade and Industry's Invest in Britain Bureau is not bringing home much bacon. Not one of the hundreds of cases handled by the bureau last year resulted directly in a company coming to Manchester.

Manchester City Council runs its own Manchester Campaign with Manchester Airport and the Central Manchester Development Corporation, and its business promotion brochure has already sparked investment interest in Japan, the US and Europe. These same investors find it bizarre that the government's promotion machine has nothing to say about Manchester.

Britain's great cities need to advertise their strengths abroad. And until the government understands the importance of these cities to the nation's economy, that economy will remain weak. As weak as Mr Sainsbury's ideas on the subject. Graham Stringer, leader of the city council, Town Hall, Manchester M60 2LA

Time for a long overdue change

From Mr Michael Henderson-Begg.
Sir, Once again we have put our clocks back to British winter time and face darker evenings, more road accidents involving children, and time disalignment with the rest of Europe.

With rising commuter fares and falling transport infrastructure investment, this appears to be another govern-

ment attempt to erode London's standing as Europe's main financial centre.

Has the time not come for our clocks to be permanently aligned with those of almost all of western Europe, namely central European time? Michael Henderson-Begg, Bartholomew House, 66 Westbury Road, New Malden, Surrey KT3 5AS

Democratic credentials in South Africa

From Mr Anthony McCall-Judson.
Sir, Joe Rogaly's assessment of the South African scene displayed some familiarity with the subject. But his lofty assertion that the newly formed Freedom Alliance's leaders (Japhane, Conservative party, Afrikaner Volksfront, Bophuthatswana and Ciskei) have poor "credentials as democrats" cannot pass without comment.

I will not attempt to claim that Africa produces state-of-the-art western-style democrats. But as many well-informed South Africa correspondents, human rights campaigners (including Helen Suzman) and political commentators have observed, the two most blatantly undemocratic organisations in South Africa are the ANC-South African Communist party alliance and the ruling National party. It is difficult to determine which of them has the more shameful human rights record or which, in the past, had the firmest resolve to squash free speech or criticism.

Many now feel the ANC-SACP alliance is the greater offender, since left-wing "censorship" is now so virulent. Either way, one wonders what on earth Joe Rogaly is trying to say. He cannot be implying that Nelson Mandela's or President F.W. de Klerk's democratic credentials are impressive, can he? They are both good public relations men, not democrats. Anthony McCall-Judson, head of public affairs, Bophuthatswana International Affairs, Piccadilly House, 33/37 Regent Street, London SW1Y 4NE

Pensioners and their needs will not go away

From Mr Richard Thomas.
Sir, John Willman ("Welfare versus wealth of nations", October 25) is right to identify the challenge to policymakers of an ageing population. But he seems to have fallen into the same trap as many governments, which think washing their hands of the problem - by reducing state provision - will mean it goes away. Pen-

sioners will still be there, even if they do not all appear on government accounts. I am agnostic as to the public-private divide. But it is more important than means. Pension provision should be efficient, equitable, comprehensive and secure, and whichever mechanisms serve these objectives best should be employed. But, whatever their role in

terms of actual provision, governments must ensure these objectives are met. New mechanisms, are to be encouraged, but the principle of public provision is not. Richard Thomas, research fellow, Institute for Public Policy Research, 30-42 Southampton Street, London WC2E 7LU



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FINANCIAL TIMES

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Wednesday October 27 1993

Canadian landslide

THE "FIRST-past-the-post" electoral system can produce bizarre results when more than two parties get significant shares of the vote, especially if some of them have supporters scattered throughout the country while others have solid regional strongholds. Witness the fate of the Progressive Conservative party, which until yesterday formed the government of Canada but now finds itself reduced to a mere two seats in the House of Commons.

Unquestionably, the Conservatives would have lost the election under any system. Yet they actually won a larger share of the total vote than the Bloc Québécois, which with 54 seats will now form the official opposition, and about the same share as the Reform party which won 53 seats, almost all in the western provinces of Alberta and British Columbia.

It would therefore be wrong to take the apparent annihilation of the Tories at face value, or to assume that it will be permanent. They retain control of two provincial governments and half the seats in the upper house. They remain the natural political home of Canada's business elite, and the only party which can credibly present itself as a nationwide alternative.

Ms Kim Campbell, the outgoing prime minister, who lost her own seat, cannot escape responsibility for her party's debacle. No doubt the main factor was Canada's floundering economy, with unemployment at 11.2 per cent. But Ms Campbell succeeded in an inept campaign in turning defeat into a headlong rout. Since one of her main blunders was to warn that unemployment would stay high until the end of the century, the sad lesson is that democracies do not reward leaders who tell them unpalatable truths.

Familiar dilemma

The incoming Liberals present themselves as economic "pragmatists" somewhat in the Clinton mould. Mr Chrétien is pledged to create jobs by pumping money into the economy, but his room for manoeuvre is limited by the markets. The federal deficit is already large, and if the new government risks increasing it by any significant fiscal stimulus it will either have to increase interest rates or

let the dollar slide. It is a familiar dilemma, which will probably make for less spectacular changes in economic policy than electoral rhetoric suggested.

Similarly, not too much should be made of the danger to the North American Free Trade Agreement. There is a strong free-trade wing within the Liberal party, which would not be happy if Mr Chrétien risked scuppering the treaty with unrealistic demands for renegotiation. He will no doubt ask for "clarification" on certain issues such as anti-dumping and dispute-resolution. Perhaps he will even take a leaf out of Mr Clinton's book and ask for one or two symbolic "side agreements". But the fate of the treaty as a whole will be decided not in Canada but in the US Congress.

Firmly committed

Most interest will focus on the constitutional consequences of Monday's vote. It is certainly not an outright victory for separatism. The Liberal party, which won seats in all 10 provinces, is if anything even more firmly committed to the federation than were the Conservatives, and the victory of Mr Lucien Bouchard's Bloc Québécois (BQ) in Quebec should be seen as an expression of protest rather than a settled determination to secede.

More ominous, perhaps, is the victory of the Reform party in the west, reflecting in part a mood of exasperation with Quebec's insistence on special treatment. The Liberals may feel they have to cater for this mood by a more rigid federalism, which in turn would provide the BQ with new grievances to play on. Mr Bouchard could yet be propelled into independence on a wave of English-speaking impatience.

All in all the result reflects the worldwide assertion of national or communal identities in the face of globalising economic and cultural trends. The Liberal victory is in part an expression of Canadian nationalism, faced with the economic dominance of the US, while the BQ represents a French-speaking particularism that would rather deal directly with Washington or New York than have to work through Ottawa. European spectators should feel at home.

How to pluck the geese

SUPPOSE THE UK chancellor decides that a further fiscal adjustment, beyond that left behind by Mr Norman Lamont, is indeed required. How should he go about it? How far, in particular, can he rely on cuts in public spending, rather than increased taxation?

The answer is that he will be forced to rely on taxation. As the Green Budget from the Institute for Fiscal Studies demonstrates, the government would be doing well even to keep to its announced targets for public spending. This is so for three reasons.

First, on the government's forecast of inflation, the real growth of the new control total, which covers supposedly non-cyclical public spending, is set at less than 2 per cent in each of the next four financial years. This is less than the growth of total public spending in the recovery years of the last cycle, even though Mrs Margaret Thatcher was then in charge and the government's majority was much larger.

Second, most of the programmes that were easy to cut have already been severely trimmed. Thus 72 per cent of general government expenditure is now accounted for by social security (23 per cent), health (15 per cent), education (12 per cent), defence (9 per cent) and debt interest (7 per cent). Debt interest is bound to rise. Defence spending is already set to fall to just over 3 per cent of GDP by 1995, well below previous levels. Any "cuts" elsewhere are likely to be absorbed in those self-same programmes. In the case of health, for example, present plans are for increases in real spending of 1 per cent a year. Such a low rate of increase is virtually inconceivable.

Manifesto commitments

Finally, some important programmes are protected by manifesto commitments: to increase the level of real resources in the National Health Service year by year, for example, and to preserve child benefit.

This does not mean that it would be impossible to cut public spending, even drastically. But it would be possible only if the government were to make radical changes in politically sensitive areas. With Mr Major as prime minister and Mr Clarke as chancellor, that will not happen, bar

Splashy ways

If good performance of the economy were to allow announced tax increases to be "given back" in subsequent years, the chancellor could always oblige. He would want to do that in splashy ways. What would be most undesirable would be for increases in distortionary but visible taxes, such as national insurance contributions, once again to be used to finance cuts in less distortionary, but more visible taxes, such as income tax.

The Green Budget notes many ways of raising revenue. The tax value of personal allowances could, for example, be restricted to the 20 per cent rate, which would raise £5.7bn; allowances and thresholds could be frozen at current real levels, which would raise £1bn; mortgage interest relief could be phased out; which would raise £3bn-£4bn; advance corporation tax and the tax repayable to tax-exempt shareholders could be reduced from 20 per cent to zero, which would raise £2bn; and standard rate VAT could be imposed on zero-rated goods (excluding housing), which would raise £10.7bn (but increase consumer prices by 3.7 per cent), while a 5 per cent VAT would raise £3.1bn.

None of these options would be popular. Some would be both unpopular and retrograde. Restrictions on allowances and thresholds would probably be the least painful and the least damaging. Whether Mr Clarke does, the geese will hiss. But he has no prudent alternative. They will have to be plucked once again.

Mr Rob Holland is a superintendant with AOC International, an offshore construction company. He and his work crew recently spent a month dangling on scaffolding beneath the Brent Bravo oil platform in the North Sea, welding a 100ft steel beam to its underside. The beam was so heavy that it had to be split into five sections and manhandled into position with block and tackle.

The work was the start of what is likely to be one of the most ambitious engineering projects undertaken in the North Sea.

Shell and Esso, joint owners of the 17-year-old Brent field, the largest in the UK sector, are trying to extend its life beyond its 1996 expiry date with a £1.5bn project to re-pressure the wells and modernise three of its four production platforms.

According to Mr Walter van der Vijver, manager of the Brent fields in Aberdeen, this plan - if it works - should add 10 years to Brent's life and enable it to produce additional oil and gas equivalent to the output of a small to medium-sized North Sea field. He describes it as "mid-life crisis work".

The Brent project is a striking example of what many see as a new stage of life for the North Sea. With more than a quarter of a century of production behind it, its installations are showing their age and facing all the decisions whether to invest in extending their lives. Mr David Black, who analyses North Sea developments for Wood Mackenzie, the stockbroker, says: "There is a realisation now that some fields which have been around for some time still have useful life left."

Decisions are being influenced by a number of factors. The most pressing is the weak oil price, now close to its lowest point in real terms since North Sea production started, which is prompting greater financial rigour.

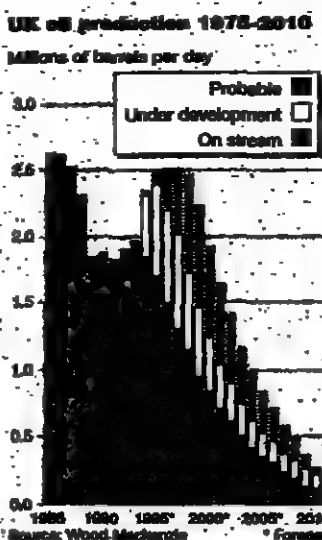
In spite of the substantial cost of redeveloping Brent, Shell believes that it will yield significant gains in efficiency: manpower offshore will be reduced by up to a half, which, in turn, will sharply reduce the cost of servicing and supporting platforms. Shell calculates offshore labour costs at \$80 an hour. According to Mr Van der Vijver, the Brent plan has been successfully tested against oil at \$15 a barrel, compared with its current price of \$16.30. "And even if it fell to \$12, we'd go ahead," he says.

Unfortunately, the characteristics of Brent oil are unique, so other fields cannot be given the identical treatment. But rapid advances in technology and greater cost-awareness have opened up other prospects.

A different technological approach was adopted at Scott, a

Oil groups are launching costly schemes to refurbish their ageing offshore platforms, writes David Lascelles

Mid-life crisis in the North Sea

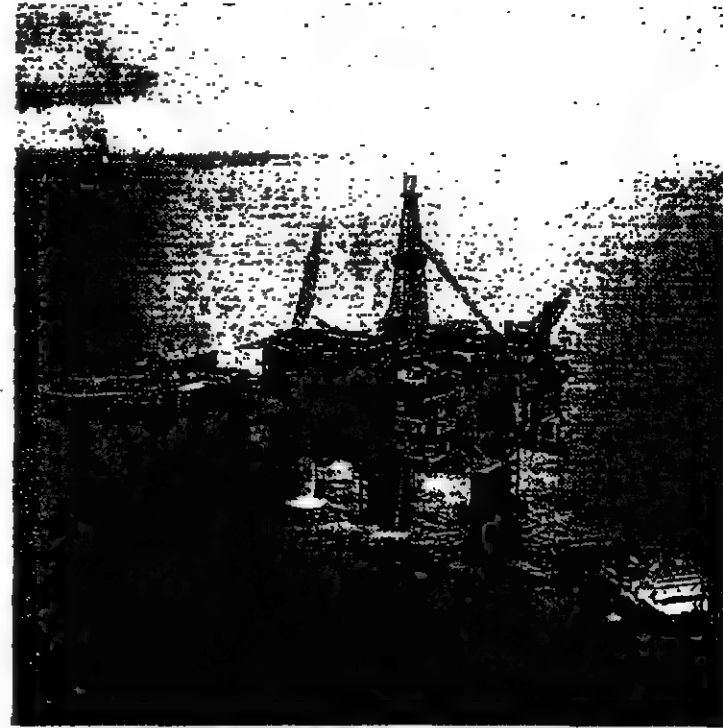


Source: Wood Mackenzie

new field which came into production earlier this year. Cost savings were achieved by pre-drilling the wells and locating as much well-head plant as possible on the sea floor rather than on the platform. This enabled Amerasia Hess, the US operator, to complete in only four months start-up work that would normally have taken more than a year, and will lead to reduced manning, according to Mr Rex Gaisford, director of projects.

In some fields, manning reductions are being taken much further. Shell is planning to reduce the number of men at its giant Leman gas field in the southern sector of the North Sea from more than 100 to only a handful by 1996. It has also commissioned a study from Kvaerner, the Norwegian offshore contractors, for a new type of platform that would be unmanned, and would only need to be visited by a support vessel once a year.

Although new seismic techniques and sophisticated drilling and oil recovery technology tend to attract the most attention, one of the most significant advances offshore was the development of floating cranes, capable of lifting loads of more than 10,000 tonnes in one go, compared with 1,000 tonnes previously. Thanks to floating cranes, installations containing complex plant and machinery can now be assembled onshore where costs are a fraction



New wave: the Brent Bravo oil platform, which is undergoing an overhaul

of those offshore, and then floated out and lifted onto the platform.

Cost consciousness has even forced changes in the relationship between North Sea platform operators and their contractors - traditionally an area where the oil companies kept the benefits of greater efficiency to themselves, excluding others from sharing in them.

In what is likely to be a pioneering change, the operators and contractors in the newly opened Hyde gas field formed a partnership where any savings in development costs were shared out among the five members. Normally, the operators would hire the contractors at a fixed rate, which gave them an incentive to make a high-priced tender for the work.

Mr Chris Rhodes of BP, one of the two oil companies involved (the other being Statoil of Norway), says: "We felt there was something to be gained from a different relationship with the contractors, one that would take costs out rather than take them in." There was scepticism in the industry that the

experiment would work, but Hyde came in 25 per cent below its \$50m budget, and Mr Rhodes estimates that three-quarters of these savings were due to the arrangement.

According to estimates by Wood Mackenzie, new technology and organisational methods have halved production costs in the North Sea. At old platforms these range between \$3.50 and \$5.50 a barrel, at new ones only \$2.50.

Shifting patterns in energy use, particularly the growing popularity of natural gas, have also played a part. Once flared off as a useless by-product, gas is now making marginal fields viable, and is likely to overtake oil as the North Sea's leading product within the next 10 years.

The other factor shaping developments is the attention to safety since the Piper Alpha disaster in 1988, in which 167 men died. This greater focus on safety is reflected at the newly opened Piper B platform, which stands less than half a mile from the yellow buoy marking the site of its ill-fated predecessor.

Compared with the untidy jumble of older platforms, Piper B has a sleek, space-age look. Its most dramatic features are the eight aluminium lifeboats jutting out of the side, ready to nose-dive 80ft into the sea in an emergency. The platform layout puts personal living quarters at the opposite end from the oil and gas facilities - and shielded by fire-resistant walls.

The platform cost £1.5bn. But its sophisticated design means that operating costs will be lower than Piper Alpha's - as little as £2.50 a barrel, according to Mr Michel Rouleau, chairman of Elf Enterprise Caledonia, the operator.

But this willingness to invest large sums of money in order to achieve long-term savings is relatively new to the North Sea. Dr Chris Fay, managing director of Shell UK, says: "We used to measure things by their capital cost; now it's by their lifetime cost." This change has had a profound influence on planning, and means that new equipment in the North Sea is of higher quality - the extra cost being justified by the fact that it should last longer.

Further stimulus to this growth was the government's decision in the last Budget to change the way North Sea oil is taxed so as to give greater incentives to production rather than exploration, reflecting the view that all the big fields have now been found. Although much of the redevelopment work, including Brent, was launched before the change was announced, there is now a stronger incentive for the owners of the largest fields to invest in extending their lives.

According to the latest estimate from Scottish Enterprise, the economic development agency, some £40bn is likely to be invested in UK North Sea oil production over the next four years, including the development of 70 new wells. This will help output from the sector rise to a peak of 3.48m barrels a day in 1995, up from some 2m this year, although after that it will start tailing off as fields dry up.

Mr John Browne, chief executive of BP's exploration division, told the Offshore Europe exhibition in Aberdeen last month that BP would be raising its investment by 10 per cent over the next three years. He expects to see his own company's UK production rise by more than 6 per cent as a result.

Mr Browne forecast that new technology and cost reduction could increase North Sea oil recovery by as much as 25 per cent, from 50bn barrels to 75bn (to date some 12bn have been extracted). Other oil executives found those figures optimistic. But they do not disagree with the implication that the North Sea should manage to stave off old age for some years yet.

A nationwide identity card scheme in the UK need not discriminate, argues Ian Davidson

Taking no liberties

THE idea of a limited identity card scheme, now being considered by the UK government as a possible way of combating social security fraud, has provoked a chorus of protests from the civil liberties lobby. It argues, quite rightly, that any such scheme would be discriminatory. Moreover, if such a scheme were to have any chance of being effective in defeating social security fraud, it would have to intrude on the freedom and the privacy of the individual on a horrendous scale.

But the libertarians make a mistake when they go on to argue that the case against this particular scheme is only a limited version of the much larger case against a generalised system of national identity cards. On the contrary, the libertarians grossly overstate the threat to individual liberty which would necessarily be posed by a national identity card, and underestimate the offsetting benefits that it might confer.

Above all, it seems slightly eccentric to attribute so much virtue to the absence of a system of documentary identification, when there

are so many, much larger, defects in our political system which limit the rights of the individual, starting with an unrepresentative electoral system.

The discriminatory nature of the scheme being considered by the government is obviously its biggest drawback. But even if it were limited to the original purpose of fighting social security fraud, its administration would be immensely cumbersome: not just because many millions of people would have to be issued with cards, but because the scheme would have to take account of the fact that a significant proportion of them would be constantly floating in and out of the social security net.

Even if these practical problems were overcome, a simple identity card would not solve the problem. Much of the £50n reportedly being defrauded from the social security system is not the result of mistaken identity, but derives from the fact that claimants tell lies

about their circumstances.

Any identity card which was likely to be useful in preventing that kind of fraud, therefore, would have to be a smart card, which has large amounts of updatable information about the private circumstances of beneficiaries, including their work, income and family.

Both sides of transactions have an interest in being able to establish an individual's identity

Such a card would obviously constitute an outrageous intrusion on the privacy of the individual.

Moreover, the political inspiration of the idea rests at least in part on the illiberal sentiments of the right-wing of the Conservative party. The law-and-order mob within the party cannot be counted on to defend

other people's liberty.

The second half of the libertarians' argument holds a good deal less water than the first. It is not at all obvious that the absence of an identity card system provides the British subject with civil protections that are not available to the citizens of France or Germany. On the contrary, it seems obvious that these protections lie elsewhere, in the political system, in the civil society, in the framework and application of law. If our liberties are threatened, it is primarily because these other facets of the social fabric are defective.

The absence of any recognised form of identity is an anachronism which harks back to some mythical, bygone era when society was purely composed of private individuals.

The reality today is a mass society where everybody has frequent, multiple and almost unavoidable transactions with different parts of the state system, and in which both sides of those transactions have an

interest in being able to establish the identity of the individual. The libertarians try to scare us with the danger that a menacing police force would constantly be stopping people to check their identity cards, but this is just a trumped up bogey. In five years in France I was not once stopped on the street for an identity check, and I never met anyone who was.

In place of this bogey, there may be other cases where an identity card system might actually improve the quality of civil society. Young blacks who could easily prove that they were born in Britain and were better protected against police harassment and the rest of us might be better off if Irish terrorists found it more difficult to remain underground. For either of these benefits, I should gladly be prepared for the trivial inconvenience of being required to admit to my identity.

A discriminatory identity card should be unacceptable on civil liberty grounds. But a national identity card system is much less objectionable, and might even offer compensating advantages.

Absentee policy

■ Suspensions that the Balladur government is cooking up a sternly protectionist policy towards the Uruguay trade route were only confirmed at Chatham House yesterday when Alain Lamassoure, French European Affairs Minister, who was due to address the foreign policy think-tank on the future of the European Community, failed to appear. It fell to the French ambassador, Jean Guigouin, to read out the text on his behalf.

Full of the die-hard protectionism of the old days, the speech was the more astonishing because Lamassoure is not merely not a Gaullist - he belongs to the centre-right UDF group - but is generally known for his modern, liberal views. Yet the audience learnt how the single market had unfairly "benefited companies from outside countries more than European firms".

"Europe alone can uphold the rules of fair competition that world trade needs, and which the so-called free traders of America and Japan oppose," he thundered. Lamassoure preferred not to deliver the speech in person.

Party on

■ Is Silvio Berlusconi about to form a political party? Judging by

Italy's media, or that part which he does not control, Berlusconi has already taken the decision to enter the fray. Proof, if anything so mundane were required, has been seen in a string of speeches offering prescriptions on the state of the nation. More titillating were two interviews in his publications, one with Berlusconi himself, the other with Mario Segni, the leader of the referendum movement. Both appeared to voice identical views on the need to modernise politics, shape up the bureaucracy, and activate seriously.

Yesterday Berlusconi was trying to pour cold water on his political ambitions; they merely existed in the pages of newspapers, he averred. Seeing he controls 95 per cent of commercial television, he is certainly in an excellent position to back whomever he pleases at the next elections.

Regrets

■ It seems that time is not healing the wounds inflicted when John Major sacked his former chancellor Norman Lamont.

Last night the prime minister hosted a farewell dinner at No 10 for the recently retired Bank of England governor Lord Kingsdown and his wife. Among those invited, naturally enough, were the full complement of former chancellors with whom the then Robin Leigh-Pemberton worked during the 1990s. Lord Howe accepted gracefully,

OBSERVER



I'm moving out of left-handed flanges into raves

while Lord Lawson conveyed his apologies, explaining he would be travelling in South Africa. Lamont, according to Downing Street, simply made it clear that under no circumstances would he step at Major's table.

Time, gentlemen

■ Spotting that the London Stock Exchange news service, which the Financial Times receives via a direct feed to its Reuters terminal, was offering unusual opportunities for insider trading, Observer rang the exchange.

The fact that announcements

timed 11.15 am were arriving at 10.15 am was not the market's fault, sniffed an official who confirmed that its electronic clocks had most certainly been wrong back to Greenwich Mean Time over the weekend. The query was referred to Reuters.

"The time codes on your terminal are user-configurable," the global information services company pointed out helpfully, which roughly translated means that you are supposed to twiddle a knob to tune in with whichever of the world's unpeopled time zones you happen to be in.

"People forget we are not just in the business of supplying systems to Suburbiton," an unsympathetic Reuters spokesman adds.

Match point

■ The demise of brand-name consumer goods at the hands of generic brands may be on every marketing guru's lips these days, but the response by Kellogg's and Coca-Cola to the Toronto Blue Jays' victory in the World Series baseball championship shows that the old brand-name giants have not altogether lost their touch.

Within minutes of the Blue Jays hitting the winning home run at midnight last Saturday, the two companies' Canadian subsidiaries were pulling out the stops to bring out special "commemorative" versions of Rice Krispies packets

and Coca-Cola cans.

Kellogg's plant in London, Ontario, worked all day Sunday to print special Rice Krispies boxes with a congratulatory message to the Blue Jays, embellished with highlights and statistics of the 1993 season. The first of 120,000 cartons were on supermarket shelves soon after lunchtime on Monday.

Coca-Cola had designed its special World Series cans long before the final game. All that remained was to emboss the score, together with those of the previous five World Series games, on the side. The first of 3m cans was filed on Sunday.

Both companies expect their "limited editions" to sell out within a week or two. But how many cereal eaters or cola drinkers will transfer from rival brands?

Titular head

■ Heading the list of the 93 public service organisations receiving the prime minister's award for excellence in delivering public services is the Aberdeen Royal Hospitals NHS Trust.

Among the improvements it has instituted as a result of "patient user" feedback is the re-introduction of the title Matron. And what was the incumbent called before? "Director of nursing services and quality" says a hospital spokesman.

All that award-winning work notwithstanding, "lots of patients hadn't realised what that was".

Sri Lanka's gross domestic product grew by 4.3 per cent in 1992 and exports climbed by more than 20 per cent. There is optimism in Colombo, but the war against Tamil separatists is a big obstacle to long-term economic progress. Kieran Cooke reports

Progress is hampered by conflict

ON the morning of May 1 1993, Mr Ranasinghe Premadasa, Sri Lanka's president, was on his way to a political rally. A populist given to flamboyant gestures, Mr Premadasa jumped out of his car at a busy junction and started directing traffic.

A man pushing a bicycle walked towards the president. A bomb tied to the man's waist blew the president to bits. More than 50 other people were also killed in the blast.

A few days earlier, Mr Lalith Athulathmudali, a popular opposition leader and former defence minister had been shot dead.

The government blamed both murders on Tamil separatists fighting for statehood in the north and east of the country.

The prophets of doom forecast that another round of bloodshed was about to sweep the country. There were fears that after five years of autocratic Premadasa rule, there would be political instability and the economy would nose-dive.

In the event, a power transition was effected with the minimum of disruption. Mr D.B. Wijetunga, the mild-mannered

former prime minister, moved up to the presidential position. Mr Ranil Wickremesinghe, the 44-year-old industries minister, became prime minister.

The economy proved resilient to events. Despite continuing violence and the worst drought to hit Sri Lanka in 50 years, gross domestic product grew by 4.3 per cent in 1992 and officials say GDP growth this year is likely to be 5.7 per cent.

Exports climbed by more than 20 per cent in 1992 and seem set to expand by a similar amount this year. Moves towards a more open, free market economy are continuing. There is plenty of optimism about "it is our goal to achieve newly industrialised country (NIC) status as we enter the 21st century," says President Wijetunga.

But violence and the war against Tamil separatists remain the biggest obstacle in the way of Sri Lanka's long-term economic progress. Fighting between government forces and ethnic Tamil rebels has not only cost thousands of lives. The war has also cut off almost a third of the country from normal economic and social activity.



Colombo, while fighting continues in the north, it will be difficult for Sri Lanka to capitalise on its advances of recent years

The war costs the equivalent of between 3 and 4 per cent of GDP each year, with security eating up 15 per cent of precious budget funds.

Former President Premadasa tried and failed to negotiate with the Tamil Tigers, the main rebel group. President Wijetunga shows signs of taking a harder line.

But the government has learned that it is very difficult to defeat a disciplined guerrilla force whose tactics include suicide bombings. Any full-scale military offensive against the rebels in the north could provoke mayhem in other parts of the island.

While the war continues, Sri Lanka is unlikely to attract the sort of long-term capital-intensive investment it so urgently needs in order to achieve NIC status and follow in the footsteps of dynamic economies such as those of Malaysia, Thailand and Singapore.

The country needs mills to feed its textile industry. If industrial expansion is to con-

tinue, new power plants should be coming on stream. But in the present circumstances investors, both local and foreign, seem unwilling to commit large-scale funds to Sri Lanka on a long-term basis.

It is a credit to the government that despite the war in the north and a Maoist-style insurgency in the south of the country, considerable progress has been achieved on many fronts.

Sri Lanka has been praised by aid organisations for its poverty eradication programmes. Standards of literacy and health are well in advance of any other country in the south Asia region.

Over the past five years Sri Lanka's economic structure has undergone fundamental change. Agriculture, once the mainstay of the economy, has declined in importance with tea and other traditional crops accounting for less than 24 per cent of the total value of exports last year. Meanwhile,

industrial exports, mainly textiles and garments, grew by 41 per cent last year and now account for more than 65 per cent of total export values.

In the South Asia region, Sri Lanka has been a pioneer in introducing market-based reforms. Exchange controls have been progressively lifted. Tariffs have been reduced. A number of state enterprises have been privatised.

"The results of these policies are clearly evident," says President Wijetunga. "We have more than doubled our rate of economic growth. Our average per capita income has risen from SLRs1,902 in 1976 to SLRs24,224 in 1992 (\$214 and \$653 at prevailing exchange rates) despite having 3.7m more mouths to feed."

"We have made a dent in unemployment, which has declined from about 24 per cent to around 14 per cent... there is hope in the air and the international community has developed confidence in our land and its policies."

But not all government policies have worked. Inflation, now running at between 12 and 15 per cent according to central bank officials, remains an intractable problem. The government has made large cutbacks in spending in some sectors and a tough budget is forecast in early November.

But spending on security is rising rapidly and while considerable progress has been made in cutting the budget deficit, which now amounts to 7.4 per cent of GDP, Sri Lanka remains dependent on foreign funding to meet its spending needs. Sri Lanka received \$840m in aid last year, a far higher amount, on a per capita basis, than other countries in the region.

Foreign direct investment in 1992 nearly doubled to \$120m and further strong investment growth has been evident this year. But most of this investment is relatively short term. A large proportion of inward investment has gone into textiles: some argue that the

country is now overly dependent on one industrial sector.

A lot of investment has come from the east, particularly from South Korea and Taiwan. Sri Lanka needs to build an industrial base but many companies use the island only as an assembly point for garments, taking advantage of cheap labour and the country's quotas. Most cloth for the textiles factories is imported. Owners of the few textile mills operating in Sri Lanka allege that the South Koreans and others are dumping cloth on the island and threatening the survival of their mills.

Although significant progress has been made in fiscal reforms and moves towards a more open economy, the process has been slow. The IMF is concerned about recent public sector pay rises and excessive credit growth, particularly in the plantations sector. Last year, Mr Wijetunga, then prime minister, admitted that the two big state banks, which control more than 65 per cent of the banking industry, had accumulated a total of SLRs18bn in bad loans and were technically insolvent.

Privatisation - termed "peopisation" by the government - has so far excluded many of the big state enterprises such as the telecommunications company and Air Lanka, the national carrier.

Sri Lanka is arguably a more democratic country than its economically thriving neighbours to the east. "We are the opposite of Singapore or South Korea," says Mr Wickremesinghe. "Democracies have to carry people along; a government has to explain. We are a politically mature country."

But an active democracy often leads to tough economic decisions being put off for political reasons. Government officials acknowledge they have to tread very carefully with privatisation so as not to offend powerful unions. The present Wijetunga government is regarded as less tough in many areas than the Premadasa regime. More political trade-offs are likely, particularly in the run-up to presidential elections due to be held

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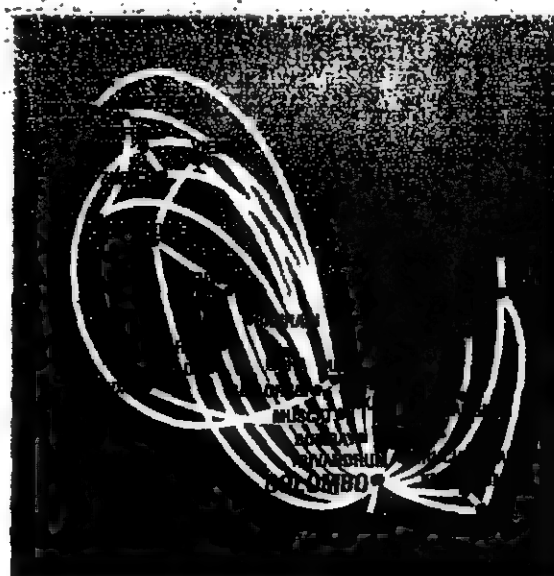
before the end of 1994.

For the moment, the United National Party, in power since 1977, seems secure in office, with the main opposition party, the Sri Lanka Freedom Party (SLFP) led by Mrs Sirima Bandaranaike, a former prime minister, divided by bitter quarrels.

The government still has a very tough job. Sri Lanka's well-educated people have high aspirations. In the late 1980s, former President Premadasa ruthlessly quashed a left-wing insurgency in the south. Remnants of that movement, resentful at the lack of economic opportunities available, still exist.

But above all, it is a settlement of the fighting in the north and east which holds the key to Sri Lanka's future. In Colombo, the war often feels remote. But as long as the fighting continues, it will be difficult for Sri Lanka to climb the economic ladder and capitalise on its impressive advances of recent years.

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SRI LANKA 2

THE ECONOMY

Separatist war is still critical factor

SRI LANKA'S ambition, as stated by President D. B. Wijetunga, is to move into the league of newly-industrialised countries by the year 2000.

Economic growth in recent years has been moving ahead at a respectable pace. Sri Lanka's GDP grew by 6.2 per cent in 1990, 4.6 per cent in 1991, 4.3 per cent last year and, according to central bank officials, is likely to expand a further 5.7 per cent in 1993.

There is an air of economic confidence about. The shop shelves are full. Colombo's roads are becoming clogged with imported cars. Officials talk of economic lift-off.

"We are pushing forward to achieve our NIC goal," says Mr Ranil Wickremesinghe, prime minister since May. "We want to move from a lower income to a middle income country."

But while short-term prospects remain bright, there are many who question the realism of the government's long-term objectives. The continuing war in the north and east of the country looms like a dark cloud over the economic future.

On the plus side, there has been a vast improvement in economic performance in the past few years. Through much of the 1980s, the government

had to fight not only a war against Tamil separatists in the north and east but also a Maoist-style insurgency in the south. The economy stagnated. Investment declined. The tourists stayed away.

That has all changed. Industrial output, mostly based on textiles and garments, has expanded rapidly. In 1992, the value of industrial exports surged by more than 40 per cent, with the textiles sector

Agriculture, which accounts for about 25 per cent of export earnings, has recovered from last year's drought

accounting for nearly 50 per cent of total export earnings. In the first half of 1993, industrial exports rose more than 30 per cent.

Agriculture, which accounts for about 25 per cent of export earnings, suffered due to a prolonged drought last year and output declined by 1.5 per cent. But figures this year are far healthier, with a nearly 40 per cent rise in the output of tea, Sri Lanka's main crop, and a 22 per cent rise in rubber output in the first six months.

Direct foreign investment

last year nearly doubled to \$120m. More than \$400m of foreign investments are now in the pipeline. In addition, nearly \$30m of portfolio investment came into the local stock market, attracted by the government's economic liberalisation policies and the partial privatisation of several state enterprises.

Tourist arrivals were up 24 per cent last year and will get close to the record figure of 407,000, set in 1982, the year before the main outbreak of ethnic troubles on the island.

Meanwhile, average per capita incomes have risen from \$214 in 1976 to \$563 a year last year. According to official figures, unemployment - one of the problem areas in the economy - has dropped from about 24 per cent 10 years ago to 14 per cent.

The government's overall financial policy has also met with some success. The budget deficit was reduced to 7.4 per cent of GDP in 1992, compared to 11.6 per cent of GDP in the previous year. In 1992, for the third year running, there was an overall balance of payments surplus, helped by an inflow, now running at \$400m per year, of remittances from Sri Lankans working abroad.

A few years ago, Sri Lanka had zero foreign exchange reserves and foreign exchange controls led to a thriving black market in the rupee. Now most exchange controls have gone, the rupee is free floating and, according to official figures, foreign reserves have risen to \$1.7bn, enough to cover up to six months' imports.

But there is still a lengthy list on the minus side of the economic table. There seems little hope of any further reduction in the budget deficit, at least in the short term. Government spending went up by nearly 40 per cent in the first five months of 1993, in part due to substantial increases in the cost of fighting the war.

The jump in spending is also a byproduct of the continuing fight against inflation, described by President Wijetunga as "the great monster of our times". The central bank says inflation was 11.4 per cent last year. The overall inflation rate is now estimated to be between 13 and 15 per cent.

Treasury officials admit that efforts to stem inflation have so far failed. High interest rates of more than 20 per cent, designed to counteract inflation, have attracted large amounts of funds into the country. Portfolio investments from abroad have added to the

inflationary pressures. The central bank has had to spend large amounts mopping up excess liquidity in the system. The broad money supply has increased by about 20 per cent so far this year.

To bridge its budget deficit, Sri Lanka is still largely dependent on considerable amounts of foreign grants and aid, which totalled more than \$800m in 1992.

Upward pressures on wages could lead to the textiles industry decamping to Vietnam or Bangladesh

growing fast, they have been outpaced by import growth. The value of imports rose 24 per cent in the first five months of this year and the trade deficit widened to \$673m.

Some of these economic difficulties might be seen as only short-term structural deficiencies, to be tackled over a period of time. The more difficult question, given Sri Lanka's NIC aspirations, is how does the country achieve the next stage of development.

To ensure onward development, investments need to be

made in more value added industries. But such long-term and capital-intensive investments are not being made. Sri Lanka's economic position is still fragile: upward pressures on wages could lead to its textiles industry decamping to lower cost countries such as Vietnam and Bangladesh.

Above all else, the war remains the critical factor. It soaks up increasing amounts of precious government funds. Multi-million-dollar long-term investments in power plants, fertiliser factories and in textile mills are unlikely to be forthcoming given the present security problems.

The government places high hopes in the tourism industry. But a target of doubled tourist arrivals to more than 800,000 by the end of the decade seems unrealistic in the present circumstances, with some of the country's best tourist facilities on the east coast of the island virtually out of bounds due to the war.

Sri Lanka has made impressive short-term economic gains. In the long term, an end to the war and continuing political stability are the keys to whether or not the country will achieve its NIC goal.

Kieran Cooke

KEY FACTS

Area	64,454 sq km
Population	17.4 million
President	D. B. Wijetunga
Currency	Sri Lanka rupee (SLRs)
Average exchange rate	1991 \$1=SLRs41.372
	1992 \$1=SLRs43.830

ECONOMY

	1991	1992
Total GDP (\$bn)	8.0	9.7
Real GDP growth (%)	4.6	4.3
Components of GDP (%)		
Private consumption	77.3	75.2
Government consumption	22.8	23.7
Exports	9.9	9.5
Imports	28.7	32.4
Annual average % growth in		
Consumer prices (%)	12.2	11.5
Wholesale prices (%)	8.1	8.7
Govt. deficit (%)	9.5	7.2
Total external debt (\$bn)	8.8	7.1
Debt service ratio (%)	15.2	16.4
Official foreign reserves (\$m)	685	927
Money market rate (%)	25.4	18.0
Trade		
Current account balance (\$m)	-483	-409
Exports (\$m)	2,040	2,433
Imports (\$m)	3,061	3,433
Trade balance (\$m)	-1,021	-1,000
Main trading partners (%)		
USA	29.2	4.3
Japan	5.9	10.5
Singapore	2.1	8.4
Hong Kong	1.0	8.0
Germany	10.2	3.3
UK	5.5	5.2
EC	33.1	15.5

(1) Government deficit as % of GDP
(2) Debt service as a % of exports of goods and services.
(3) 1992 rate is first quarter average only.
(4) Percentage share of trade in 1991.
Source: Datastream, EIU.

STOCK MARKET

Phlegmatic reaction to assassination

COLOMBO stock market watchers were expecting the worst in the aftermath of the assassination of President Premadasa in May this year. There was talk of a political and economic crisis; analysts were readying themselves for a plunge in share prices.

But the crisis did not occur. The stock exchange reaction to events was remarkably phlegmatic. By June, the market was in a bullish mood. New issues were well received. In the June-September period this year, the market rose by more than 20 per cent.

"The fact that the market did not overreact to the assassination shows its resilience and maturity," says Mr L. S. Jayawardena, chairman of the Sri Lanka Securities and Exchange Commission (SEC). "The Sri Lanka market might be relatively small, but in the space of just a few years it has become a sophisticated market in which foreigners are showing increasing interest."

Mr Jayawardena was appointed to the SEC in 1987. Total market turnover at the time was less than SLRs200m (\$4m). By 1990, total turnover had shot up to

SLRs1.66bn and last year turnover reached SLRs 5bn. This year, it is likely to be more than triple that amount.

Mr Jayawardena says the main stimulus to market growth came in June 1990 when the government made the first moves to ease rules on exchange dealings by foreigners. Before that time a 100 per cent transfer tax was levied on share transactions by foreigners.

"The relaxation of the rules on foreign participation in the market was a major decision in an inward-looking country like ours," says Mr Jayawardena. "As foreign money came in, so locals felt greater confidence and started to buy shares."

Mr Premal De Mel, a researcher with the Colombo firm MacKinnon and Keels Financial Services, estimates that about 60 per cent of trading on the market is now

foreign-based. "This is still a small market and the weight of foreign funds coming in can make a big difference," says Mr De Mel.

Both foreign and local investors were encouraged by the government's new industrial strategy of the late 1980s which emphasised that the private sector must play a lead role in promoting the country's economic growth.

The government's privatisation or "peopulation" programme got under way in 1989 with the public share issue of United Motors Lanka. That issue was poorly received in a market still unschooled in the ways of the stock exchange.

But by early 1991, when state-owned Ceylon Oxygen came to the market, the share climate had changed. The issue was oversubscribed more than five times.

New listings have increased from one in 1990 to 12 last year and a possible 13 this year. At present 196 companies are listed on the Colombo exchange.

An SEC-sponsored public education programme telling people about the stock market helped to broaden share ownership. By the end of last year the SEC estimated that the number of shareholders in the market had increased to 40,000 - from only 10,000 in 1990. In addition, 20,000 shareholders had been created through the peopulation programme under which employees were given 10 per cent of shares in the privatised state-owned enterprises.

But it has not been all plain sailing for the exchange. Market overheating in 1991 was followed by a prolonged downturn through 1992. As a result, market capitalis-

ation dropped from SLRs61bn to SLRs46bn in the year. Although foreign interest in the market remained, local investors tended to shy away from new public share offers, choosing instead to take advantage of high bank deposit rates and Treasury bills which offered attractive 18 per cent yields.

The privatisation of one of the bigger state banks, the National Development Bank of Sri Lanka (NDB), in February this year helped turn the market. The NDB issue, backed strongly by foreign investors, was oversubscribed nearly four times. The subsequent entry into the market of two state-controlled hotel groups further buoyed investor confidence.

The main constraint on market growth now is liquidity. Despite high interest rates and the attraction of raising funds

on the stock market, many of Sri Lanka's biggest companies still choose to remain private, mostly family-controlled businesses. Many are reluctant to put themselves in a position where they have to make financial disclosures.

The Colombo stock exchange has come a long way in a very short time and is one of the region's most technically sophisticated.

When he took on the job of SEC chairman one of the first moves Mr Jayawardena made was to set about introducing a computer-based central depository system. With funding and technical assistance from USAID, the scripless system came into being in late 1991.

"We realise we are small, but we are one of the most technically advanced exchanges in the region," says Mr Jayawardena. "Given continuing healthy economic growth and providing more companies discover the advantages of going public, there's no reason we won't expand rapidly in the years ahead."

Kieran Cooke

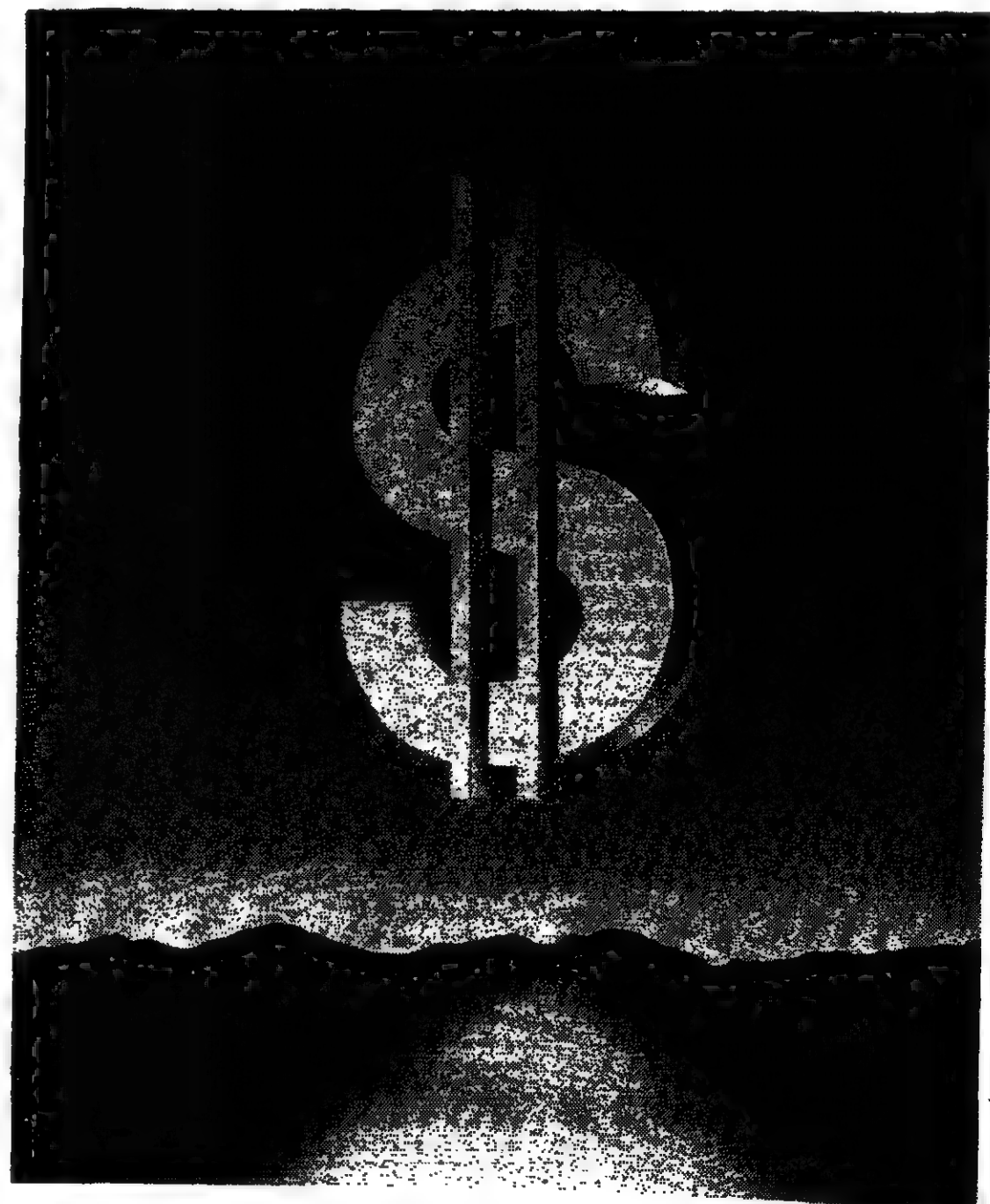
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H.E. D. B. Wijetunga
President

Democratic Socialist Republic of Sri Lanka



Hon. Ranil Wickremesinghe
Prime Minister

Democratic Socialist Republic of Sri Lanka

CHANGE AGAINST A BACKDROP OF STABILITY AND CONTINUITY

It boasts Asia's oldest constitutional government. It has survived separatist conflict, terrorist insurgency, an unsuccessful experiment in socialism and the abrupt demise of its last President. Now after 16 testing years of reform, Sri Lanka, under the leadership of the United National Party (U.N.P.), has proved the resilience and stability of its democratic government and its ability to deliver substantial and sustained economic growth.

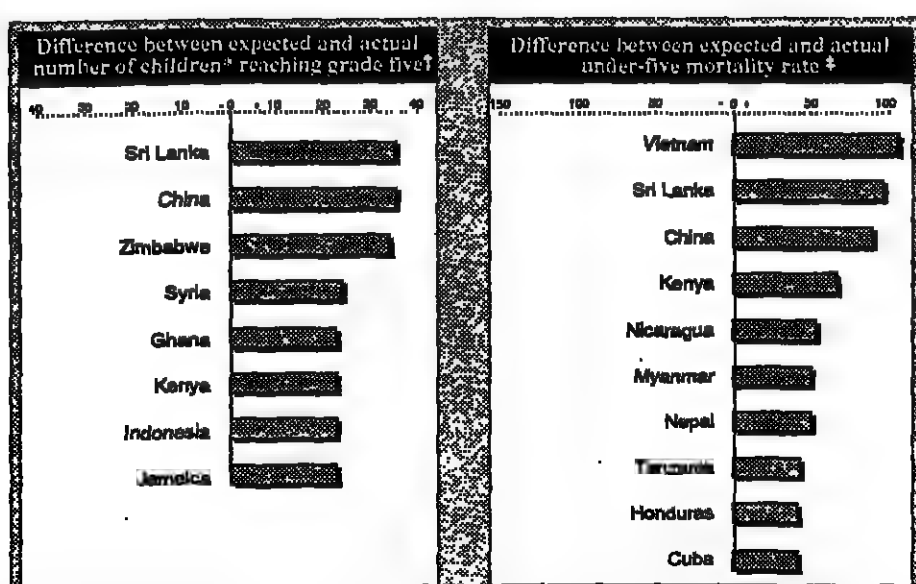
"These two principles embedded in the United National Party's philosophy of development have created space for the people of Sri Lanka to become creators of wealth within the context of a pluralistic society".

H.E. D. B. Wijetunga
President

When it came to power in 1977, the UNP introduced a sweeping programme of reform based on two central principles: the assurance of individual liberty and fundamental rights and the liberalisation of economic activity by encouraging the interplay of market forces. The result was a strong and mostly uninterrupted surge of economic and social activity.

An intrinsic component of the government's vision for the future is the concept of a democratic society where political and economic power is dispersed among the

Human Development takes priority



UNICEF in a recent report titled "The Progress of Nations" ranks countries by "national performance gaps" i.e. it compares what a country with a given income per head "ought" - by world average - to achieve with what it actually does. The chart shows Sri Lanka as being amongst the best in the world on two indicators: under five mortality and the percentage of children with at least 4 years of primary schooling.

people. To achieve this end, this government has embarked on a number of socio-economic programmes which seek to enhance the welfare of the people while entrenching the concept of ownership.

The way ahead is clear: increased integration with the world economy leading to further dismantling of State controls over economic activity.

At the same time, devolution of political power and decentralisation of administrative power ensure a continuity in the human aspect of Lanka's development.

The Politics of Prosperity

Property: Distributing land titles to over a million families.

Housing: Provision of housing facilities under the one million houses programme.

Equity: Awarding Workers in public enterprises equity stakes in the privatisation of these enterprises.

Business: Developing small business through bank lending programmes.

"A parallel development is the dispersal of political power from the centre to the periphery. Devolution of political power has taken place at the Provincial level. Furthermore, the deregulation of the economy and the decentralisation of the administrative machinery has dispersed decision making powers throughout the country."

Hon. Ranil Wickremesinghe
Prime Minister

SRI LANKA 4

■ SECURITY

Fresh confidence among army chiefs

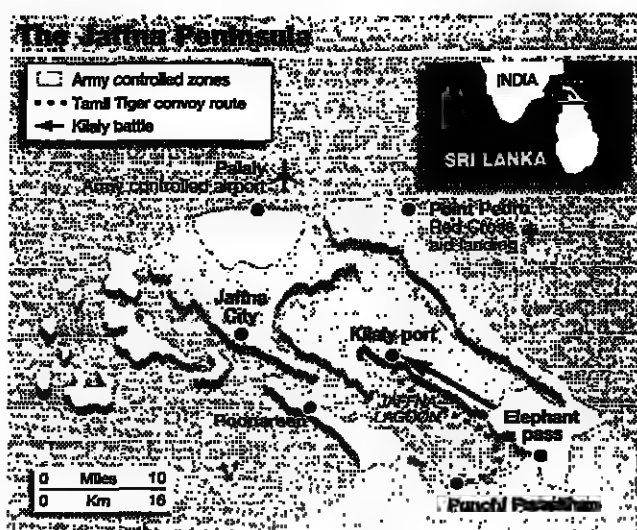
MORE than 300 people were killed and hundreds injured earlier this month in one of the fiercest battles of the 11-year war between Sri Lanka's armed forces and Tamil Tiger guerrillas.

But political and military observers say what was unusual about the battle for Kilaly - a small guerrilla port on the edge of the Jaffna lagoon - was not the scale of the action but the fact that seven Sri Lankan army officers were killed in the fighting.

Army officers, members of a once largely ceremonial force, have not been noted for leading from the front. But after nearly a year of inactivity following the deaths of several senior commanders in a landmine explosion, there is now a new grit and determination at the top in Sri Lanka's 80,000-strong army.

The country's senior military commanders, confident they have the country's troubled Eastern provinces under control, say they have at last been given the go-ahead to retake the rebel-held northern peninsula of Jaffna, from which they were expelled in humiliating circumstances in 1990.

This confidence appears to be percolating down to even the most battle-weary of front-



line officers. President D.B. Wijetunga - angered by earlier political prevarication, the assassination in May of President Ranasinghe Premadasa and the high cost of a war that has claimed 32,000 lives - has publicly vowed to crush terrorism.

Not for him the policy of his predecessor who accommodated guerrillas in five-star hotels. Mr Wijetunga appears to believe it is not possible to negotiate with Mr Velupillai Prabhakaran, the autocratic and militarily brilliant leader of the Tigers. "There is no eth-

nic problem in the north, only terrorism," says Mr Wijetunga. Defence Department officials refuse to say when the main offensive across the war-torn Jaffna peninsula - also home to about 600,000 Tamil civilians - is likely to be launched. But military commanders hint that it could come next year.

The army has already started building up its strength. Ten thousand new recruits are under training and more are expected. The total complement may end up at about 100,000 men.

The military plans to buy helicopter gunships, landing craft and fast patrol boats for the confrontation with an estimated 3,000-4,000 well-armed and trained guerrillas who have been fighting for an independent Tamil homeland.

Part of the explanation for the more determined political will in Colombo, and the army's new confidence, may lie in the recent success the military has had in bringing an element of normality back to the country's troubled Eastern provinces.

Less than three years ago, the province's two main cities of Trincomalee and Batticaloa were in rebel hands and large tracts of the mixed Tamil, Moslem and Sinhalese province were no-go areas to the army and the civil authorities. Today, most of the province is under government control, at least during the day, and many Tamil Tiger guerrillas based in the area appear to have fled north to the Jaffna peninsula.

The government is planning to hold local elections in the Eastern provinces in February and, later in the year, a refer-



A young soldier guards the Palaly perimeter, just eight miles from Jaffna City

Picture: Richard Cowper

endum on whether to merge with the country's northern province. If local elections are successful, tens of thousands of Sri Lankan troops could be released for duty in Jaffna.

President Wijetunga, who is also Sri Lanka's finance minister, is intent on trying to catapult his country into the ranks of the newly industrialised nations by the beginning of the next century, and is only too well aware of the heavy economic toll the war is taking on a country where many still live below the poverty line.

To finance soaring war costs the government has recently been forced to impose a special defence levy of 3 per cent on all transactions, operating in a manner similar to value added tax. This year, direct military expenditure is expected to total

more than SLRs20bn - about 15 per cent of the budget - but at least the same amount again is spent on feeding and rehabilitating the war-torn civilian population in the north and east.

Thousands of foreign investors have been frightened away by the fighting and many believe the number of tourist arrivals could climb to more than 1m within a few years if the war was ended. The economy of Jaffna, once the biggest supplier of fish and cash crops in Sri Lanka, is at a standstill and tourists no longer visit the East with its fabulous beaches.

President Wijetunga appears to be willing to stake all on the attempt to recapture the Jaffna peninsula guerrilla stronghold by force in an attempt to bring the war to a swift conclusion.

A brief glance at the map would seem to suggest that the army is in an excellent position to launch an offensive. It has a series of army-controlled zones ringing the peninsula: at Palaly in the north it controls Jaffna city's airport in a zone 20km wide and 5km deep; across a sunken bridge to the west of the city it controls a number of sizeable islands; and to the south-east it has cut off the peninsula from the Sri Lankan mainland by linking its Elephant Pass army base to the sea.

But the war in the north is a classic guerrilla action, fought by the most tenacious and fanatical of men and women, as the recent battle of Kilaly showed. On the second day of the army advance from its base at Elephant Pass, a carefully

dug-in group of 1,000 guerrillas took the Sri Lankan forces by surprise and in bitter hand-to-hand fighting killed 118 soldiers.

Hardcore guerrillas, led by a daring military strategist, were number little more than 5,000 throughout Sri Lanka, but they were able to defeat 120,000 Indian troops in the late 1980s. Every combatant carries a cyanide pill around the neck, which they swallow rather than allow themselves to be taken prisoner alive.

There may be fewer guerrillas, and less well-trained, than when they pushed the Indians out and when they controlled much of the Eastern province, but they remain as ruthless and are still able to assassinate politicians and military commanders.

There is some evidence they may no longer have such fierce support from the Tamil population in Jaffna. Creation of Tamil Eelam (the rebel's free state) is as far away as ever and some locals have dared to speak out against a guerrilla force, whose tax collecting ability at home and abroad, is legendary. But after a decade of indoctrination most ordinary Tamils in Jaffna still fear Sri Lanka's "Sinhalese Buddhist army" more.

Even if Tamil civilians did not fight voluntarily they might be forced into battle on the side of the guerrillas. It is by no means certain that the Sri Lankan armed forces could march into Jaffna city without killing on the way tens of thousands of civilians in the densely-populated province.

House-to-house fighting in the city could be even bloodier, and the question no one seems able to answer with confidence is whether the army yet has the numbers, ability and determination to retain control of the peninsula once it has marched in.

Richard Cowper

■ The battle for hearts and minds

Humanitarian effort to feed civilians

WHEN Colombo put down in bloody fashion a Sinhalese nationalist uprising in 1988 it soon found itself having to contend with a volley of international condemnation. Its systematic abuse of human rights also alienated many of its own people, writes Richard Cowper.

Today, Sri Lanka is still fighting a guerrilla war but it has put greater efforts into winning hearts and minds at home and abroad.

The country is now known overseas for its unique humanitarian effort in providing virtually all the food and necessities to more than 600,000 Tamil civilians living in the rebel-controlled Jaffna peninsula, where Tamil Tiger guerrillas

have been waging an 11-year struggle for an independent homeland.

"Normally, civilians trapped in guerrilla-controlled areas have to find their own food," says Mr Dominic Dufour, head of the International Committee of the Red Cross (ICRC) based in Colombo.

"The government has realised that no rebel with a Kalashnikov ever starves. But this programme is unique. It's the only country in the world where you can officially mail a letter from the capital to a rebel stronghold."

The government started the programme in 1990 and now spends more than \$500m a year, despatching an average

of 10,000 tonnes of food each month to Jaffna in a fleet of cargo ships under the supervision of the ICRC.

The food is distributed free to about 240,000 people who have been displaced from their Jaffna homes. The rest is sold in shops to civilians and guerrillas alike, under the watchful gaze of highly-efficient Tiger tax collectors.

Mr Christie Silva, in charge of the programme at the Ministry of Reconstruction and Rehabilitation says: "It's true we do not want hundreds of thousands of civilians fleeing south. But neither do we want to see starvation."

"We have to think of the future: after all, they are our people; they are also Sri Lankans."

No one is pretending the government is without fault. There are reports of malnutrition in some areas of Jaffna. A ban on diesel shipments, to deny guerrillas fuel for their vehicles, means there is a

power blackout for most nights of the month.

The country's 80,000-strong army sometimes oversteps the mark in its bitter struggle to recapture large areas of the north and some patches of the east which are still controlled by the guerrillas.

In a visit this month to the Palaly army-controlled zone, just north north of Jaffna city, I saw several night-time bursts of 150mm howitzer shells. In an area so densely populated anything less than perfect accuracy is likely to kill or injure non-combatants.

Reports of civilian Tamil deaths by army shelling are not uncommon.

But in the war for hearts and minds, there is some evidence that the government may be winning. A proposal to hold local elections in the country's troubled eastern province is seen as a further step towards normality in an area once largely controlled by the Tamil Tigers.

In the north, the growing financial predations of the guerrillas against a hard-pressed and besieged civilian population are beginning to take their toll.

Some Tamil civilians appear to have become heartily sick of the war and might even welcome a return to civilian control.

But Mr Velupillai Prabhakaran, the ruthless Tamil Tiger leader, does not appear to be willing to negotiate a political solution and Colombo therefore sees itself compelled to pursue a military one.

All the hard-won gains could disappear overnight if the army attempts to recapture the Jaffna peninsula, as it is threatening to do.

Thousands of Tamil civilians might be killed and the Tigers would do everything in their power - including using human shields - to ensure that Sri Lanka's image was again tarnished in the eyes of the international community.

■ Co-operation with India

New Delhi has score to settle

OPERATIVES of New Delhi's secret service Special Investigation Team (SIT) set up to track down the killers of Mr Rajiv Gandhi, the former Indian prime minister, are now regular visitors to Colombo, writes Richard Cowper.

SIT is working closely with Sri Lanka's police and intelligence services and its mission is clear: seize or kill Velupillai Prabhakaran founder and commander of the separatist Liberation Tigers of Tamil Eelam (LTTE) and the man they are convinced master-minded the assassination of the Indian prime minister.

Mr Gandhi was killed in May 1991 by a young female Tamil suicide bomber from Sri Lanka at an election rally in the southern Indian city of Madras. The *modus operandi* was very similar to that used by the LTTE to murder Sri Lanka's President Premadasa at an election rally in Colombo in May this year.

The co-operation between New Delhi and Colombo in this and other security areas is a far cry from the last decade when India operated a policy aimed at destabilising her tiny southern neighbour.

Today, New Delhi no longer supports and arms Tamil Tiger guerrillas. It fears that it might end up with its own rebel movement in the fractious southern Tamil state of Tamil Nadu and is taking a tough line against LTTE arms smuggling.

Earlier this year, the Indian navy captured and destroyed a trawler in the Palk Straits, a 20-mile strip of water that separates Tamil Nadu and Sri Lanka's Jaffna peninsula. As well as arms and explosives, on board was Prabhakaran's right-hand man, known as

Kittu. He and a number of other senior LTTE commanders died in the incident in circumstances that have never been fully explained.

The loss of Kittu is said to have been a heavy blow to the rebel leader. Prabhakaran is said to have placed great reliance on Kittu as one of the few commanders he could trust.

So deep is his fear of New Delhi that he recently placed Mahatya, his deputy, under house arrest in Jaffna as a suspected "Indian agent."

All this seems an age from the early 1980s when Rajiv's mother, Mrs Indira Gandhi, ordered RAW - India's equivalent of the CIA - to arm and train cadres of a tiny Tamil rebel movement in secret Indian camps. The close relationship began to break down when Rajiv - who succeeded his mother as prime minister after she was assassinated by her Sikh bodyguard - signed an Indo-Sri Lankan peace accord in 1987. An Indian peacekeeping force was despatched to Jaffna to force a settlement on the Tamil Tigers.

India and Mr Gandhi were to pay dearly for this change in policy. With just a few thousand guerrillas, Prabhakaran engaged and drove out an Indian army of 120,000 men. At least 7,000 Indian soldiers died before the pullout came in 1990.

In parts of Tamil Nadu - the traditional Dravidian enemy of the Buddhist Sinhalese - the Tamil Tigers are still seen as heroes. But New Delhi has a new foreign policy of regional co-operation and a very deep personal score to settle with the man who brought to a premature end the reign of India's most famous political dynasty.

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TRADE

Deficit is at a record high

REFORM is rarely painless. Moving ahead rapidly to create a more liberal trade and foreign exchange regime, Sri Lanka has been hit hard by a sharp deterioration in its balance of trade, giving finance officials serious cause for concern.

A steady reduction in import tariffs, likely to be continued in next month's budget, and the easing last year of most foreign exchange controls on the current account, have helped to push the country's trade deficit to a record high, in spite of soaring exports.

In the first six months of 1993, the trade gap widened by 38 per cent from SLRs24.70bn in the first six months of 1992 to SLRs34.19bn, a level which most agree is not sustainable in the long run.

As a proportion of total trade, the deficit remained the same at 21 per cent, but imports continued to grow at a faster rate than exports and from a much higher base. Part of the 38 per cent increase in imports to SLRs55.97bn in the first half of 1993 was a one-off purchase by Air Lanka, the country's civil airline, of two Airbus A340s. Much of the

growth came from capital goods used for investment or intermediate goods, such as textiles, which are re-exported.

On exports, the outlook is brighter than it has been for some time. According to Mr A. R. Mansoor, minister for trade, the most remarkable development has been the expansion in the range of industrial exports.

"With 500 garment factories on stream, clothes are our top export earner. But, most encouraging of all, we are now selling 2,000 industrial products overseas," he says.

The first half of 1993 saw a sharp recovery in overseas sales of tea, rubber and cash crops following a severe drought in 1992. This, coupled with the continuing success of Sri Lanka's runaway textile sector, saw exports jump by 34 per cent in the first half of the year, putting the country on course for a record export performance in 1993. Exports in the first six months totalled SLRs61.8bn; up from SLRs46.34bn in the same period last year.

Textiles and garments led the way with a 31 per cent increase in export value to

SLRs30.77bn in the first six months after a record-breaking year in 1992. For the first time, textile and garment exports accounted for 50 per cent of Sri Lanka's total overseas sales.

Even in value-added terms, garment exports (imported inputs account for about 60 per cent of the gross export value) have now overtaken the country's traditional tea and rubber export mainstay.

In the first half of 1993, Sri Lanka's agricultural exports grew by 21 per cent to SLRs14.57bn, accounting for 24 per cent of total exports. Tea made a strong recovery in the first six months of 1993, up 35 per cent to SLRs9.2bn following last year's drought when it recorded its most dismal performance since 1966.

The removal of substantial export taxes on tea, rubber and coconut at the end of 1992 saw the elimination of an important structural inefficiency in the economy and did much to improve the prospects for an industry where poor prices and high costs have meant many plantations have made losses.

This year the Russians have come to the rescue of Sri Lanka tea exporters after the loss

of the Iraq market two years ago due to the Gulf war United Nations embargo and a sharp reduction in tea imports this year by Iran and Egypt, two of Sri Lanka's big markets.

Russia and the Commonwealth of Independent States (CIS) countries imported almost 20,000 tonnes in the first six months and are expected to import about 30,000 tonnes of Sri Lankan tea - mostly of the cheaper variety - out of an expected total of 230,000 tonnes of exports this year.

The star export performers in 1993, however, have been other industrial products, up more than 64 per cent on last year to SLRs12.2bn, and going some small way to substantiating Mr Mansoor's claim that the country may soon no longer be a two-horse export economy of tea and textiles.

Fastest growing of all the export items in this category has been polished diamonds, up almost threefold to SLRs2.53bn in the first half, with exports of manufactured rubber goods not far behind.

But Sri Lanka's economy still has a long way to go before it can shake off the sus-



pication it is still over-reliant on just a few dominant sectors. After all, tea and textiles alone accounted for 65 per cent of the

Richard Cowper

Profile: Ranil Wickremesinghe

Prime minister rose rapidly on political ladder

COLOMBO Postal District 7 is an area of elegant colonial mansions and tree-lined avenues. Mr Ranil Wickremesinghe, Sri Lanka's prime minister since May, is seen as very much a product of the "Colombo 7 set" and - as a nephew of former President J.R. Jayawardene - a part of the country's political establishment, writes Kieran Cooke.

But few doubt the considerable talents of the prime minister. Aged only 44, Mr Wickremesinghe has had a fast rise up the political ladder. There are considerable risks involved in achieving high office.

"We have to take security precautions all the time," says Mr Wickremesinghe. "But I never thought of following any other career."

Mr Wickremesinghe's father, who ran Sri Lanka's biggest newspaper group, was a Christian. His mother was a Buddhist. The prime minister's uncle is an Anglican bishop.

Former President Premadasa, a man of humble origins, was deeply suspicious of the traditional political establishment. But Mr Wickremesinghe survived and prospered during the former president's time, mainly due to his ability, as then minister of industries, to push through much-needed economic reforms.

"We are continuing with Premadasa's policies. There might be a certain change of style; that's inevitable. The opposition accuses us of being elitist. But there are more people in business now than at any time in the past. The opposition talks about socialism but we have introduced real socialism by giving people enough to eat and raising living standards."

Mr Wickremesinghe says that despite opposition from some unions, the government will continue with its privatisation policy. "Union fears are without foundation. We are going about the process slowly and carefully. But I've no doubt that before too long we'll have more efficient, largely pri-



Ranil Wickremesinghe says the privatisation policy will continue

vatelty-run enterprises."

A lawyer, Mr Wickremesinghe became an MP when he was only 25 and subsequently served as deputy minister of foreign affairs.

Despite the assassinations of both President Premadasa and the leader of an opposition party earlier this year, Mr Wickremesinghe says there is political stability in Sri Lanka.

"We have a mature political culture. Premadasa's assassination was a test and we got through it without any major problems."

But the war against Tamil separatists in the north and east of the country is the main issue. There have been indications that the new administration wants to take a harder line on the problem than Mr Premadasa.

"I don't think policy has changed. We have always said we are willing to negotiate but it seems the LTTE [The Liberation Tigers of Tamil Eelam, the main separatist group] only responds to pressure. We are not closing the door to talks but the orders to the army remain the same: to eliminate terrorism and ensure that more and more areas are under government control."

POLITICS

A distinct change of style

FORMER President Ranasinghe Premadasa often found Sri Lanka's tabloid press more vicious than the Tamil Tiger rebels in the north of the country or the Pol Pot-style Sinhalese nationalist rebellion in the south.

Each Sunday the tabloids would tear Mr Premadasa's reputation to pieces, focusing on the fact that he was not a "goigama" - the farmer caste which has traditionally produced Sri Lanka's political leaders.

Since the assassination of Mr Premadasa in May, the tabloid newspapers have gone quiet. The new head of state, President D.B. Wijetunga, soft spoken and avuncular, does not make a good political target.

Whereas Mr Premadasa was always viewed as an outsider by the political establishment, Mr Wijetunga is a "goigama" from the Kandy hill country.

Mr Wijetunga's prime minister, Mr Ranil Wickremesinghe, is part of the Colombo elite. The English educated professional class is relieved that what is perceived to be the natural political order has been restored.

The new leadership has brought a distinct change of style. Gone is the

populism and the showmanship of the Premadasa regime. Mr Premadasa, said to have worked 18 hours a day, was known as a very hard taskmaster. He was also feared by those who had crossed his political path.

Now the political mood is more relaxed. The media is more open. But there has been some continuity. There has been no dramatic change in the direction of government policy. Some of Mr Premadasa's key advisers are still in positions of power. Mr R. Paskaralingam, an important Premadasa confidant and the man credited with persuading the former president of the need for economic reform, is also Mr Wijetunga's secretary of finance.

The big question now is whether the country's new leaders have the strength to carry through tough economic policies, or whether short-term

political trade-offs will be made. A budget due in early November will serve as an indicator of the new government's political will.

During his time in office Mr Premadasa did put down - albeit brutally - an uprising in the south. He also tried, and failed, to negotiate a peace with the Tamil separatists. Perhaps most importantly, he made moves to open up the economy, while at the same time launching a much-praised poverty alleviation programme.

Mr Wijetunga has been able to build on that legacy; able to sell Premadasaism without Premadasa.

Less than three weeks after Mr Premadasa's assassination, voters went to the polls in seven of Sri Lanka's nine provinces to elect new provincial councils. The UNP made what was considered to be a surprising strong showing in the polls, although it did

lose control of the western province, which contains Colombo and more than 25 per cent of the country's 17m people. Most importantly, the polls, which had a 75 per cent turn-out, were peaceful - seen by outsiders as evidence of the resilience and maturity of the country's political system.

The UNP would appear to be secure. The Sri Lanka Freedom Party (SLFP), headed by Mrs Sirima Bandaranaike, a former prime minister, is in some disarray. Mrs Bandaranaike, suffering the after-effects of a stroke, is not as active as she once was, although she still commands a considerable personal following, especially in rural areas.

Mrs Bandaranaike's daughter, Chandrika - now chief minister of western province - is at loggerheads with her brother, SLFP MP Anura Bandaranaike. In mid-October, Mr

Bandaranaike resigned from the SLFP claiming the party was in danger of being controlled by what he called "discredited Marxists."

Now there is talk that Mr Bandaranaike could join the UNP, the party to which his father, Mr Solomon Bandaranaike, prime minister in the 1950s, originally belonged.

Meanwhile, the Democratic United National Front (DUNF), a breakaway UNP grouping, would appear to have lost its political platform which was almost entirely based on an intense dislike for the rule of former president Premadasa.

After the violence of May, everyone is now hoping for a period of political calm. But already the talk is of presidential elections, due to be held before the end of next year.

Mr Wijetunga, 71, was originally seen as a caretaker president but now shows signs of wanting to stay in office beyond next year's elections.

At the moment, people seem comfortable with Mr Wijetunga. The opposition, more concerned with its own quarrels, holds few political cards.

Mervyn de Silva

'SRI LANKA MUST BE INTEGRATED WITH THE WORLD ECONOMY TO EXPLOIT ITS LOCATION AND UTILISE ITS SUPERIOR HUMAN RESOURCES.'

Hon. Ranil Wickremesinghe
Prime Minister

Private investment in National Infrastructure: SIDI

The Government is actively encouraging private investment in the development of infrastructure and has established a Secretariat for Infrastructure Development and Investment (SIDI) in order to coordinate this process.

SIDI's mandate is to select, market and assist the development of infrastructure on a Build-Operate-and-Own (BOO) and Build-Operate-and-Transfer (BOT) basis. A 40MW diesel power plant has already been awarded on BOO terms and in the pipeline is a 300 MW coal powered power generation facility and the development of the historic port of Galle.

The following are areas earmarked by SIDI for development:

- * Power generation: dual cycle thermal plant, hydro and diesel power projects.
- * Highway construction: a southern highway linking Colombo to Matara.
- * Railway additions, extensions and electrification.
- * Port expansion
- * Telecommunications
- * Water supply
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For inquiries and more information contact:

Dr. Ramarajam, Director General - SIDI,
87, Horton Place, Colombo 7.
Tel: (94-1) 693761, 694618, 696947, 694601. Fax: (94-1) 696952.



The liberalisation of foreign exchange control

In keeping with Sri Lanka's rapid expansion and integration with the world economy the Central Bank of Sri Lanka has taken the following steps to relax exchange control:

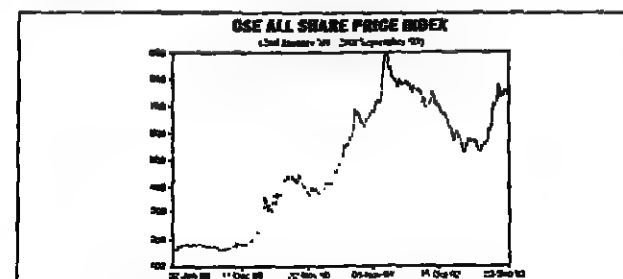
- * Exporters are now free to repatriate their export proceeds and credit them to any type of rupee or foreign currency account in any commercial bank in Sri Lanka, or to retain such proceeds abroad.
- * External current transactions are now free of all controls.
- * The period for forward exchange contracts for purchases and sales of foreign currency has been extended to 360 days.
- * Foreigners may acquire, issue or transfer shares in any company listed on the Colombo Stock Exchange (except for a few sectors such as banking, insurance and professional services) upto 100% of the issued share capital of the company.

For more information contact the Controller of Exchange or the Director-Information,
Central Bank of Sri Lanka, P.O.Box 590, Colombo 1, Sri Lanka.
Tel: (94-1) 421191, Fax: (94-1) 440353

Indicators of investor confidence: the Colombo Stock Exchange



The phenomenal growth in the activity of the Colombo Stock Exchange looks set to continue. Major indices are high and rising and the continually modernising Exchange - with one of the few scripless trading systems in Asia - is attracting intense interest from foreign investors.



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Colombo Stock Exchange, 2nd floor, Mackinnons Building,
York Street, Colombo 1 Sri Lanka
Tel: (Direct) (94-1) 325686, 325804, 446581
Telex: 21124 MAKINONCE Fax: (94-1) 445279

SRI LANKA 6

GEMS INDUSTRY

Old-fashioned attitudes

THE total value of precious gems smuggled out of Sri Lanka could be as high as Colombo's annual foreign aid receipts, says a former governor of the country's central bank and an expert in the gem trade.

If Dr Neville Karunatilake is right, then "unofficial exports" of Sri Lanka's fabled array of star rubies, cornflower-blue sapphires, tourmalines, moonstones, garnets and dozens of other precious gems, may be worth as much as \$300m a year. This would make gems Sri Lanka's largest single export after garments and tea.

Dr Karunatilake's guestimate for smuggled rough stones and gems is about double the official 1992 export figure for jewellery, diamond re-exports and gems combined of SLRs6,888m.

As Colombo moves towards a more liberal export-import regime and towards almost complete freedom of exchange controls, the chances are that smuggling will decline to a much lower level.

Perhaps more important than legitimising the trade, a proportion of which is always likely to prove attractive to smugglers and tax evaders, is the need to catapult an old-fashioned industry into the 20th century.

In the 1970s and early 1980s, for example, hundreds of Thai traders bought for a song what Sri Lankans then thought were worthless, milky-white so-called Gauda stones. The Thais took them to Bangkok, subjected them to specialised heat treatment and became the proud possessors of blue sapphires worth up to \$5,000 a carat, and often more than one hundred times what they paid for them.

By the time the Sri Lankan industry woke up to the fact it was being cheated, it had lost

many hundreds of millions of dollars' worth of sales.

Even though Sri Lankans are no longer giving away their Gauda stones they have been slow to adopt the new technology and over 95 per cent (an estimated 6 tonnes a year) of Sri Lankan Gaudas are still being sold to Thailand, mostly smuggled.

As the technology has improved, even high-quality rubies and sapphires are now heat-treated to improve their colour. This can increase their value by four or five times and is now widely accepted in the world marketplace.

In Sri Lanka, traditional attitudes that heating a gem is somehow cheating has meant the industry has been slow to invest in the specialised furnaces needed - a loss that the

state Gem Corporation is trying to remedy with a training programme and a campaign to persuade gem traders to adopt the Thai technology.

Some progress has been made but because there is little vertical integration in the industry and many gem cutters operate on a cottage industry basis, gaining access to capital has not been easy.

Current estimates are that 150 small operators are engaged in heat treatment throughout the country, compared to 500 large professional operations in Bangkok alone.

Sri Lanka has also been slow off the mark to add value by using the thousands of tiny less valuable gems in developing its jewellery export sector. The lack of initiative, poor access to capital and modern

jewellery design has been compounded by the recent loss to the Middle East of many of its experienced gem cutters and jewellers.

However, in the past few years about a dozen companies have made an impact on the market, notably Blue Diamond, Eluwalla, Sifani and Zam Gems. Some have specialised in large-scale exports while others, such as Sifani, specialise in adaptations of top-of-the-range jewellery.

Official Sri Lankan exports in jewellery have soared in the last two years from just SLRs4m in 1990 to SLRs10m in 1992. Purchases by foreign tourists, who carry jewellery out of the country unrecorded, could boost the value of the export trade to around SLRs1bn in 1993.

SRI LANKAN STATE GEM CORPORATION

Exports (SLRs millions)					
Year	Gems	Gauda ¹	Jewellery	Diamonds ²	Total ³
1988	1,425	529	74	-	2,029
1989	1,351	554	77	1,904	3,886
1990	1,840	597	94	2,038	4,567
1991	1,589	634	252	1,986	4,441
1992	1,621	456	310	4,501	6,888
1992	788	223	122	1,523	2,656
1993	900	234	180	3,419	4,733

Notes: ¹Gauda are really white rough stones, later heat-treated to turn them into valuable gems.
²Sri Lanka does not mine diamonds. These are re-exports after cutting and polishing.
³This does not reflect large-scale smuggling and is therefore far below the real figure.
⁴First six months only.

Source: State Gem Corporation

One notable success story for Sri Lanka has been the cutting and polishing of imported diamonds. In the space of just four years, with foreign capital and help, the industry has grown from nothing to annual exports projected this year at SLRs80m: up 16 per cent on last year and nearly double that of 1991.

Although added value is only 20 per cent on diamond polish-

ing compared to more than 95 per cent for gems mined domestically, many hope it will presage a new era for Sri Lanka's industry. The most ambitious are hoping the country will follow the Thai road and import rough stones and gems from all over the world, for cutting, polishing and making into jewellery.

To help achieve this goal, parliament has just passed two

new acts setting up a national gem and jewellery authority to engage in research and offer training and promotion, and a gem bank to provide access to much-needed capital. Sri Lanka's gem mining, cutting and jewellery business employs about 300,000 people in a country where 25 per cent of the land is said to be potentially gem bearing.

Colombo seems finally to have woken up to the fact that its main potential competitor and teacher, Thailand, is heading towards a business with a total annual turnover of \$4m in 1993 and it wants a much larger slice of the action.

Says Dr Karunatilake: "Sri Lanka's industry has never been fully exploited because 80 per cent of it has been underground. But with the new bank offering credit and the gem authority providing training I am optimistic that many traders will decide to go legitimate and give us the modern industry we are all looking for."

Richard Cowper

Profile: Zam Refai

Business has been kind

"HOW would you like to buy a gem of an island?" giggles Mr ZAM Refai's right-hand man, pushing across the desk a picture of a coconut-palmed paradise, just off the coast of the tourist resort of Bentota, writes Richard Cowper.

Minutes earlier, Mr Refai - or Zam, as he is known in the trade - was pocketing a \$30,000 sapphire that had been cut and polished by one of his most skilled employees.

Business has been kind to Mr Refai of ZAM Gems, the company named after his own initials. A Moslem from the coastal gem trading town of Beruwala, 35 miles south of the capital of Colombo, he started business 23 years ago with capital of \$1,000 - a paltry sum in a trade where single gems can be worth hundreds of thousands of dollars.

Today, he is a multi-millionaire with five up-market jewellery shops, numerous jewellery-making workshops and a turnover which he conservatively puts at \$2.5m a year.

Unlike the country's sophisticated and fabulously rich top 500 gem merchants, who have

conducted business for centuries from their mansions in the China Port area of Beruwala, Mr Refai is a self-made man and he clearly revels in his new-found wealth.

In addition to the magical Barbeyn island with its old white British lighthouse, he owns an exquisite blue aquamarine so huge that it is the biggest such gem ever found in this island of gems. At 946 carats, the size of a goose egg, the stone is a museum piece whose value can only be guessed at.

Mr Refai, a trader at heart, says that at the right price he might be willing to sell.

"What would that price be?" I asked.

"It's a huge draw at my most exclusive shop in the Hilton Hotel," he says. "But I might be prepared to accept \$350,000."

Such information is rare in what is undoubtedly one of the world's most secretive trades. The easy transportability of gems worth huge sums has made them extremely attractive to smugglers, drug money launderers, tax evaders and those who wish to avoid cur-

rency controls - not to mention the *nouveaux riches* and some members of the aristocracy.

"How much did you pay for it?" I hazard.

"It took my best man one week to cut and polish it, for which I paid him \$2,500 and..." pointing to his brand new four-wheel-drive vehicle. "...it cost me less than I paid for this," he says with a laugh.

"Fortune has treated me well. Mr Premadasa [the former president] gave me and all other gem and jewellery exporters an indefinite tax holiday. I don't pay any tax at all," he says.

Until 1985, his sole business was the export of polished and cut gems such as rubies, topaz, moonstones and the famous blue sapphire for which Sri Lanka has been renowned for nearly 2,500 years.

But as tourism came into its own, he expanded into making fine jewellery, using gold and gems and copying western designs. He opened shops in several of Colombo's five-star hotels, opening up a niche in the market that has made him

one of the country's top five jewellery exporters.

With an uncanny ability to see the main chance, he has concentrated on the tourist market from Japan, a country which imports more gems and jewellery than any other in the world.

Not all is plain sailing. He is now exposed to the vagaries of the Sri Lankan political climate. After President Premadasa was assassinated in May, Mr Refai hardly sold a piece of jewellery in his Colombo shops for three months.

But jewellery, although expanding fast, still accounts for just 20 per cent of his turnover and, should an emergency arise, he could always "slip a handful of sapphires into my pocket and sell them abroad for a small fortune."

Political stability is the key to the future and he is looking forward to the day when tourism - now at 400,000 visitors a year - reaches the 1m mark. "Then I shall be a truly rich man," he says with a smile, giving the \$30,000 pink padmaraga sapphire in his pocket another twist.

Profile: Associated Motorways

Joint ventures bring expertise

FOR many Colombo businesspeople, the war against Tamil separatists in the north of the country seems very remote, writes Kieran Cooke.

"We really don't notice it much down here," says Mr Tilak de Zoysa, managing director of the Associated Motorways (AMW) car industry group.

AMW is one of Sri Lanka's biggest importers of cars and motorcycles, mainly from Japan. But its main business is what is known as tyre rebuilding.

AMW collects used tyres and employs the latest technology to rebuild them. The rebuilt tyres have 80 per cent of the life of a new tyre. AMW's tyre rebuilding facility is one of the biggest in the region.

Mr de Zoysa feels there could be more economic progress if the war ended. But of more immediate concern is government economic policy.

"There has been a remarkable change over the past four years," says Mr de Zoysa.

Former President Premadasa pushed through a

whole series of measures to liberalise the economy. We were given tax incentives to encourage us to buy new machinery and employ more people.

"As a result, business has been investing far more and reaping the dividends. This year AMW will have a turnover of about SLRs720m: double that of three years ago."

Improved investment incentives plus the easing of exchange controls mean that companies have been able to enter into joint ventures with overseas investors, introducing much-needed technology and expertise to Sri Lankan industry.

AMW has recently entered into a joint venture to manufacture tyres with the

giant RPG group of India.

It has started another tyre retreading operation with a Malaysian company and Mr de Zoysa is thinking of going into the shoe business, again with a company from Malaysia.

"The whole business atmosphere has changed in recent years," says Mr de Zoysa.

"While interest rates are high - more than 20 per cent - credit is not so tightly controlled as it once was. The loosening of foreign exchange controls has been a key development."

"Not long ago one of the big state banks gave me a credit card with a limit of \$10,000. I've never had a credit card in my life. Such a thing was unthinkable only a few years ago."

Profile: Lanka Garments

A fast-growing business

MR Shabbir Sangani, head of Lanka Garments, has views which would raise eyebrows among Sri Lanka's economic planners, writes Kieran Cooke.

"We should forget all this business about becoming a newly industrialised country," says Mr Sangani.

"If the economy does take off and we start growing above 5 per cent, then wages are bound to rise. We'll lose our main advantage; the garment industry will go elsewhere and then we'll create more problems than we've solved."

Mr Sangani is one of a new breed of entrepreneurs in Sri Lanka. At 39, he heads a fast-growing, privately-held business employing 1,500, with a turnover of more than \$2m last year.

He started Lanka Garments in the mid-1980s with \$15,000 capital loaned by his father.

He now has three factories,

one on the outskirts of Colombo and two in rural areas, set up under former President Premadasa's industry disbursement programme.

Lanka Garments produces jackets and rainwear for the US market.

Very little of the product content is sourced in Sri Lanka. The fabric for a popular brand of jacket destined for the US market is purchased in China by a South Korean company.

The only thing sourced locally is the thread.

The company's workforce is

more than 90 per cent female. Wages are set at a minimum of SLRs2,000 a month. A South Korean has been brought in to help supervise the work.

"She earns about 50 times the wages of a local but has paid her wage by increases in productivity," says Mr Sangani.

Like other garment producers, Mr Sangani feels that Sri Lanka will face growing competition on wages from countries such as Vietnam, India and Bangladesh.

To hedge against any downturn in the garment business,

Mr Sangani has diversified into diamonds. A diamond cutting factory next door to Lanka Garments in Colombo now employs 280 workers.

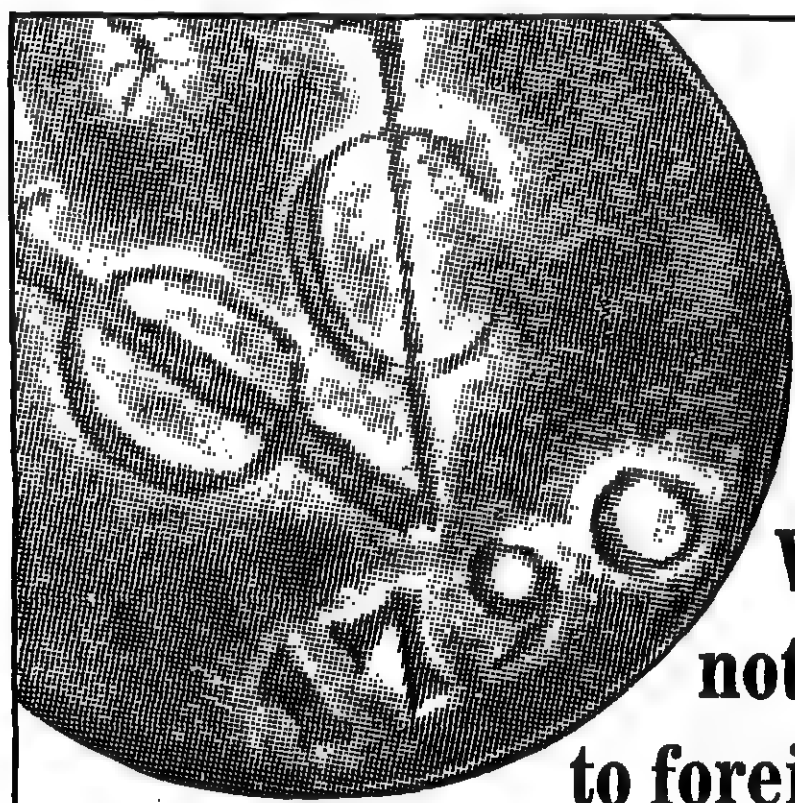
An Israeli technical adviser has been brought in.

The uncut diamonds arrive from dealers in Antwerp and Tel Aviv. They are cut in Sri Lanka and then shipped for sale in Japan.

The next step is to open a jewellery factory. The cut diamonds and the jewellery for their setting will then both be sent to Japan.

Mr Sangani has a half-Japanese Sri Lankan partner, who makes the all-important contacts in Tokyo.

"I'm going to stick with these two industries," says Mr Sangani. "In theory, when textiles hit a rough patch, then diamonds will come to the rescue. But I know nothing in business works quite so neatly."



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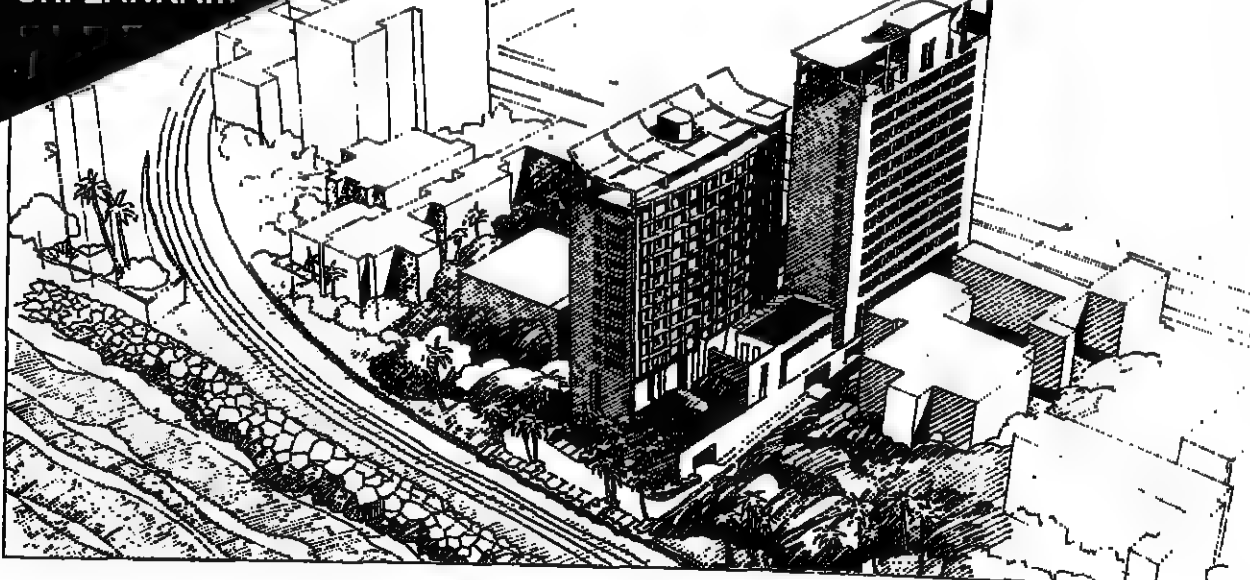
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Better field practices have already helped boost tea output, although nobody knows the exact size of the increase.

TEA INDUSTRY

Gains despite loaded dice

FATE could not have been more cruel to the 22 companies which last year were awarded five-year profit-sharing management contracts to run Sri Lanka's decaying state plantation sector.

When they picked up the reins at 450 government-owned tea, rubber and coconut estates in July 1989, they were well aware that the sector was losing about SLRs400m a year - just over SLRs400m a month. Some estimates put losses over the last few decades as high as SLRs500m.

What the companies could never have forecast was a year in which the worst drought in the living memory of many planters caused output in the sector's most lucrative crop, tea, to fall to just 178,000 tonnes - the lowest level for 35 years.

If that were not pain enough, earlier this year they were forced to absorb a 35 per cent government-imposed pay increase in an industry where wages already account for over 75 per cent of total costs.

In spite of the loaded dice, the companies contrived to make a sharp dent in overall losses by mounting a successful drive to eliminate theft, waste and poor labour management. They saved tens of millions of dollars in stolen tea, fertilisers, wages to ghost workers, bribes to officials and outrageously over-priced transport costs.

Says Mr L.G. Munasinghe, Sri Lanka's Tea Commissioner:

"Pilferage in the state sector may have accounted for between 5 to 10 per cent of total turnover."

The companies introduced new financial management techniques, fired some of those caught pilfering, sidelined the most inefficient and, most important of all, began the long process of improving agricultural field practices. Some notable gains have already been made. Average losses for the second half of last year

This year Sri Lanka is expected to regain its position as the world's largest exporter of tea

were cut sharply to around SLRs128m a month, and more dramatically, in the first half of 1993 to SLRs53m a month - just 20 per cent of the average monthly loss when they first took over. Four companies say they hope to make a profit this year.

Equally encouraging is the belief that better field practices have already helped to achieve a slight boost in tea output, though nobody can put a figure on the exact size of the increase. This year Sri Lanka is expected to regain its position as the world's largest exporter of tea, after falling into second place behind India in 1992.

According to Mr Munasinghe, production is likely to end the year at around 222,000

tonnes - up about 35 per cent on last year, though not as high as the record 241,000 tonnes produced in 1991. He believes better use of fertiliser and other improved practices may enable Sri Lanka to boost output to 250,000 tonnes next year, if the weather is favourable.

Further good news for companies struggling to turn their estates round is that Colombo is expected soon to announce substantial changes in the contracts awarded last year. These will probably include a decision to extend the contract from five years to 30 years, possibly with the option of a further 30-year extension.

"Before the end of the year, I fully expect to be in a position to grant a new contract, possibly a usufruct contract of 30 years," says Mr Rupasingha Karunatilaka, Sri Lanka's minister of plantation industries. The contract, which will be similar to a lease, is tantamount to privatisation. The companies will no longer merely share in the profits - if there are any - but will bear all the risks of any losses too.

The longer contract is vital if companies are to take a long-term view and raise much needed capital to modernise the country's ageing plantations. Many of the tea bushes are 50 years old and of the wrong type, with scores of estates averaging output of just 1,000kg a hectare - less than half that of India and Kenya, Sri Lanka's main com-

petitors.

The expectation is the Asian Development Bank will come up with about \$60m in low interest loans, which the government will lend to the industry, providing companies put up capital of their own.

Many estates are already improving their finances by diversification. Some have switched a proportion of their land into cash crops, while a few are looking at the feasibility of gem mining. Others are selling valuable timber resources, while one company is hoping to build a golf course and another is looking at the possibility of turning an old tea factory into a hotel. All this is heartening news for a sector stifled for decades by the dead weight of a top-heavy management and bureaucracy that often seemed hardly to care whether the industry remained solvent or not.

Turning the industry around will nevertheless be an uphill task. Unacceptably high wages are likely to remain a feature for several years to come, while labour agitation in a highly unionised sector has already manifested itself in several strikes against management efforts to cut labour costs. Above all, it is in tea that Sri Lanka has the experience and expertise. But tea prices seem so often to favour the industrialised countries at the expense of third world producing nations.

Richard Cowper

TEXTILES

Short-term outlook still seems bright

THE growth of Sri Lanka's textiles industry has been impressive. In 1977, textile exports were worth less than \$10m. By the mid 1980s, the figure had soared to \$280m.

The real growth in the industry has come in the past three years: in 1990, textiles and clothing exports were worth about \$600m. Last year, earnings from textiles exports rose to \$1.2m. A healthy 35 per cent growth in the value of textile exports is projected for this year.

The rapid expansion of the textiles industry has transformed the Sri Lankan economy. A few years ago, agricultural produce - mainly tea, rubber and coconuts - accounted for the bulk of the country's export earnings. In 1992, textiles accounted for 49 per cent of total export earnings and made up 70 per cent of the value of manufacturing exports.

But while the textiles industry has been at the forefront of Sri Lanka's efforts to industrialise its economy there are considerable problems.

Sri Lanka has so far failed to build up an industrial base to service its textiles industry. Almost all fabrics, plus many other goods such as zips and buttons, are imported. Imports of textile goods last year were worth more than \$600m - some 50 per cent of the value of total textiles export earnings.

Textiles, particularly at the lower, less value-added end of the business, is a notoriously foodlose industry. Sri Lanka is deeply concerned about competition from lower cost producers. "We are watching the emergence of Vietnam very closely," said an official in the Ministry of Handlooms and Textiles. "With lower wage rates, Vietnam and Bangladesh could very quickly mount a challenge to our industry."

At present the minimum wage in Sri Lanka's textile industry is SLRs2,000 (about \$40) a month.

Buoyed by the success of the textiles industry, the late President Premadasa inaugurated a

programme to encourage 200 textile enterprises to open further factories in rural areas. Serious problems of unemployment in country areas would thus be partly alleviated. Those who set up factories under the programme were given considerable tax incentives plus valuable allocations of export quotas.

To date, officials say about 120 factories have opened up in the countryside, although how many of these are fully operational is not clear. The programme's contribution to the overall health of the textiles industry is questionable.

Some manufacturers complain that they now have to waste considerable amounts of time and money transporting materials to and from remote areas over often very badly maintained roads. Some manufacturers have opened factories

in country areas simply to gain more quotas and take advantage of the tax incentives offered. They often still carry out the bulk of production at facilities near Colombo.

Industry analysts say the quotas allocation under the 200 factories programme has not

Vietnam and Bangladesh are not the only countries which are challenging Sri Lanka's textile industry

been properly supervised. This has caused confusion over quotas with Sri Lanka now producing more than its quota allocation in some categories, less than its allocation in others.

There is concern that unless the system is reorganised Sri Lanka could face difficulties in

upcoming quota negotiations. Balanced against these problems, the short-term outlook for the textiles industry still seems bright. The industry is beginning to attract some investments in more value-added products.

Progress is also being made in developing markets for non quota goods such as skirts, housecoats and nightwear. "We have to move upmarket; there is no alternative," said one official.

But for the moment, wages remain the critical factor. Competition at the lower end of the textiles market is intense. In these recessionary times textile buyers are looking even more closely at cost cutting.

Vietnam and Bangladesh are not the only countries which are challenging Sri Lanka's textile industry. A big US buyer recently decided to stop purchasing from suppliers in Sri Lanka and go instead to the Caribbean, where it could import US-made fabric for finishing and re-export back to the US.

"The next few years should still see industry growth," said one big manufacturer. "But I would be far more cautious about the long term."

Kieran Cooke

Company profile: Eskimo Fashions

Wages have changed only a little

ESKIMO Fashions is a hot and dusty one-hour drive away from Colombo. At its factory in the middle of a coconut plantation Eskimo produces winter tights and gloves, mostly destined for the European market, writes Kieran Cooke.

Eskimo is fully owned by the Ergees group, one of Germany's biggest textiles companies. Production started in 1985: Eskimo now produces about 18,000 pairs of tights and 6,000 pairs of gloves each day.

Mr Hermann Michael-Lohs, Eskimo's managing director, says that Sri Lanka still has considerable labour cost advantages. Wages for the factory's 1,800 workers have changed little in the past 10 years. "In 1982, the minimum wage was SLRs20 a month - now it is SLRs2,000. But in D-Mark terms, because of the devaluation of the rupee, the wage is about the same."

But Mr Michael-Lohs says that Sri Lanka's textile industry is still very underdeveloped, with no industrial base. "We import about 50 per cent of our final product cost. That's high compared to many others - in some companies imported goods account for more than 90 per cent of the

A strike in India's textile industry underlined the need to maintain considerable stocks

final cost. Sri Lanka is still mainly a textile producer and not a manufacturer."

Eskimo imports its yarn from India or Indonesia. Not having a local supply of such goods means that Eskimo needs to keep more than two months of materials in stock to ensure continuing production. A recent strike in the

Indian textile industry underlined the need to maintain considerable stocks of material.

"That's a big financial burden and puts our costs up," says Mr Michael-Lohs. "We also have to find storage space."

Some design work is carried out in Sri Lanka and the workforce has been quick to learn new skills. But the more sophisticated production is still carried out at another Eskimo factory in Malaysia.

"We have a good labour force here, with good relations between workers and management," says Mr Michael-Lohs. "But we always have to keep a watch on wages. The moment they go up, we become uncompetitive. As a country tries to industrialise, the textile industry is always one of the pioneering industries. But it's also the first industry to move on when costs start to rise."

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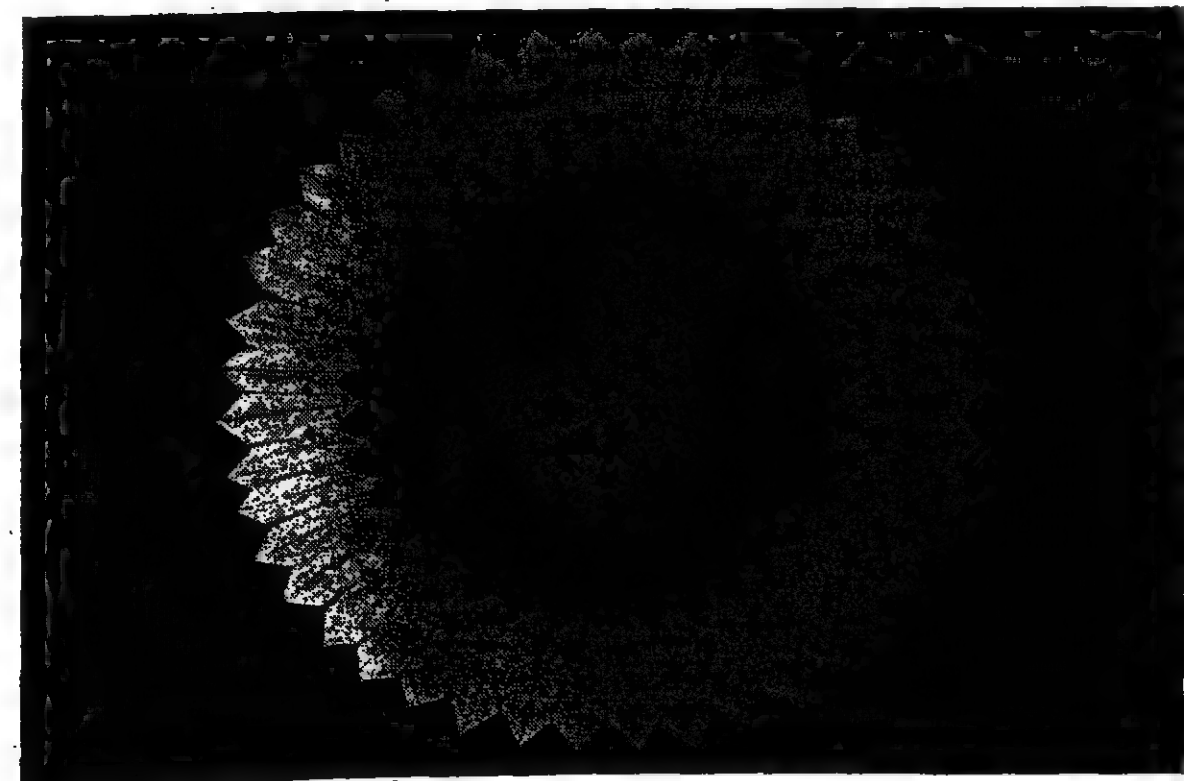
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SRI LANKA 8



The industry has now become the country's third-largest official foreign exchange earner

Picture: Terry Kit

TOURISM IN SRI LANKA			
Year	Arrivals	% increase	Foreign exchange earnings (\$m)
1986	18,989		1.3
1987	46,247	15.0	3.6
1988	103,204	21.4	22.4
1989	321,780	26.6	110.7
1990	407,220	9.8	146.6
1991	257,456	16.9	82.2
1992	184,732	1.1	76.0
1993	297,888	61.3	132.4
1994	317,703	6.7	156.5
1995	393,669	19.3	198.5
1996*	284,331	19	
1997*	288,359	1	

Notes: * First nine months

Source: Ceylon Tourist Board

TOURISM

Back on track after unrest

SUCH has been the revival in Sri Lanka's tourist industry that enthusiastic hoteliers and travel agents are now talking of paradise regained.

After a decade of civil war and unrest which saw tourist arrivals fall to a miserable 185,000, the industry is on course to exceed the figure of 400,000 for the first time since violent ethnic riots left more than 1,000 dead on the streets of Colombo in 1983.

Few would deny that Sri Lanka, with its palm trees and beaches, old colonial hotels, delightful tea plantations and spectacular ancient Buddhist cities, is the perfect winter destination.

Last year, 393,669 people thought just that - an extraordinary increase of 24 per cent on the previous year. The industry has now become the country's third-largest official foreign exchange earner.

After a decade of penny-pinching, hoteliers are pulling out their cheque books. The government has approved the construction of 35 new hotels worth about SLRs8bn. One thousand rooms are under construction and 2,000 more are in the pipeline.

There is still over-capacity in Colombo's five-star hotels but the days when they courted shady Chinese gambling tycoons to set up casinos in their establishments because occupancy was so low, seem long gone.

Sri Lanka has commissioned a tourism master plan from the United Nations Development Programme (UNDP) and the

World Tourist Organisation (WTO) for the years to 2001. Mr M. N. L. Lantra, director of research and planning at the Ceylon Tourist Board, says the draft plan envisages total capital expenditure of about \$400m with a target of doubling tourist arrivals to about 850,000 by the year 2001.

To achieve this, room capacity will need to double to just under 20,000 by the turn of the century.

Foreign exchange earnings are expected to increase from just under \$200m a year now to \$700m by the year 2001 at 1991 prices. Direct and indirect employment in the industry is forecast to grow from about

70,000 now to 136,000.

The plan calls on Colombo to liberalise its air transport arrangements to attract additional foreign airlines and more charter operators.

Among many other recommendations, it urges the government to take account of environmental concerns, such as sewage outlets, and to make a special effort to ensure Colombo is made more attractive. Potential draws such as Galle Face Green and Deira Lake have been allowed to wither dismally, to the consternation of locals and foreigners alike.

There are two causes for concern on the hoteliers' horizon in spite of all the optimism.



Few would deny that Sri Lanka, with its palm trees and beaches, is the perfect destination

Picture: Shash Maw

First, the world recession. Tourist arrivals in the first nine months of the year were up about 1 per cent on the same period in 1992 but the past three months have shown a worrying decline of 10 per cent.

Tourists from the UK have visited Sri Lanka in record numbers but those from Ger-

many, Sri Lanka's biggest market, have declined sharply, as have those from France.

Second is the potentially lethal effect of a deterioration in the carefully-balanced security equation.

For the past year, Tamil terrorism has largely been confined to the north of the country, out of bounds to tourists.

The number of foreign visitors actually increased in May this year despite the assassination in Colombo of the country's president. But a series of incidents directly involving tourists could undermine overnight all the hard work and investment.

Richard Cowper

Profile: Galle Face Hotel

Putting the glitz on faded grandeur

THE press release reads like an obituary for Asia's most venerable and charming hotel, writes Richard Cowper. The new management has "proven experience in developing interactive tourism concepts... and has received international attention for the successful conceptualisation, restoration and rebuild of the Raffles Hotel in Singapore," it says.

Upmarket Disney has come to Colombo's Galle Face Hotel. To the consternation of hotel cognoscenti the world over, Mr Cyril Gardiner, one of Asia's most idiosyncratic and much-loved hoteliers, has signed away day-to-day management of the hotel that has been his passion for 33 years.

In August, Mr Gardiner, a wealthy patrician businessman who bought the Galle Face in 1960 after his OM car business was wiped out by a complete government ban on passenger

cars, signed a deal with DBS Bank, the Singaporean government-backed company, which owns the Raffles Hotel.

In return for \$7m investment in the Galle Face, DBS Bank has gained a 25 per cent share of a new joint venture which has been granted a 99-year lease on the hotel and surrounding land. The Raffles has been given a 30-year contract to manage the hotel.

For those who like their hotels well-packaged and easy to assimilate the glitzy Raffles

treatment is likely to prove attractive.

But for those who seek an escape from theme hotels with lobby chandeliers and obsequious staff who say: "Have a nice day, sir" and for those who found Mr Gardiner's stately pile on the Indian Ocean near the top of their list, the new Galle Face may prove a disappointment.

Many formed a deep attachment to the faded grandeur of a hotel that outdoes the Taj in Bombay for architectural splendour and the Eastern and Oriental in Penang for dramatic seafront views.

Even the most committed of those who have stayed at the three-storey hotel - opened in 1864 next to Galle Face Green facing the Indian Ocean - would agree that it needs investment.

The grandest ballroom in Asia outside Shanghai does not hide the fact that the hotel's roof is in need of replacement. A complete overhaul of the air conditioning, electric, plumbing

and phone system is necessary, while one virtually unseaworthy wing needs complete renovation.

But despite all this the hotel works and the high-ceilinged rooms, with ancient barefoot waiters serving stengangs on a tarrace the length of two cricket pitches, gives the place a unique magic.

The fear is that the Raffles management, with its driving commercial imperative, and coming from a city where money is king, may end up creating a highly expensive birthday cake out of one that has evolved in a stately fashion over the past 130 years.

Mr Gardiner, a man who gave discounts for non-smokers, never sacked an employee and for decades refused to countenance a shop in the confines of the 70-roomed hotel because it would smack of commercialism, may yet live to rue the day he made the deal.

Or perhaps he is more canny than we can know. With a

Dickensian passion for accounts he has never borrowed and last year made profits of SLRs19m. At 71 he no longer has the energy he once had and, as he himself says, "I have to safeguard the Galle Face into the next century. The place needs renovation, and investment, but not too much investment."

His deal with DBS ensures that his staff are employed until retirement, that he still retains a controlling share of the joint venture companies' equity, and he still retains ultimate sanction over all physical alterations.

In the first development phase, over the next 12 months, DBS plans to spend most of its \$7m on training staff in Singapore, refurbishing existing rooms, restoring the south wing, adding four new restaurants and a shop, a business centre and a health club.

But in the next phase there seems certain to be as many as a dozen new shops and there is already talk of an extension, one of the very reasons some believe in an attempt to capture the hordes of tourists who pass through Singapore on package tours.

The Raffles in Singapore had 1.6m visitors last year - about four times Sri Lanka's total tourist population. Mr Gardiner never liked his hotel too full.

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FRENCH FINANCE AND INVESTMENT

Wednesday October 27 1993

Recession persists and the remnants of market protectionism and government controls are still in evidence. However, the Balladur administration's recently launched privatisation programme could, if it is successful, propel the sector into a new era of modernisation, writes Alice Rawsthorn

Strains start to ease

WHEN Edmond Alphandery, the French economy minister, this month announced that more than 2.8m private investors had applied for shares in Banque Nationale de Paris (BNP), he knew that the first phase of the French government's privatisation programme had been a success.

The success of the privatisations is critical not only to the credibility of Mr Alphandery and the rest of the Balladur administration, but to the future of the French financial system.

The last privatisation drive, launched in the mid-1980s when Edouard Balladur was economy minister, marked the start of the modernisation of France's financial sector by loosening its old links with the state and heralding a new wave of market deregulation. International investment has since flooded into France. Many of the leading players in French finance have expanded their activities into other countries. Yet the path towards modernisation has been impeded by lingering anachronisms from the old era of market protectionism and government controls. Although the humiliating spectacle of the Balladur government's climb-down in the Air France dispute has raised serious doubts among international investors about the strength of its commitment to liberalising industrial policy, in theory the new privatisation programme should be the catalyst for completing the process that Mr Balladur began.

Despite the Air France debacle, the Balladur privatisations, which could include the sales of the Crédit Lyonnais

banking group and three insurance groups, Union des Assurances de Paris (UAP), Assurances Générales de France (AGF) and Groupe GAN, as well as that of BNP, could scarcely have been better timed.

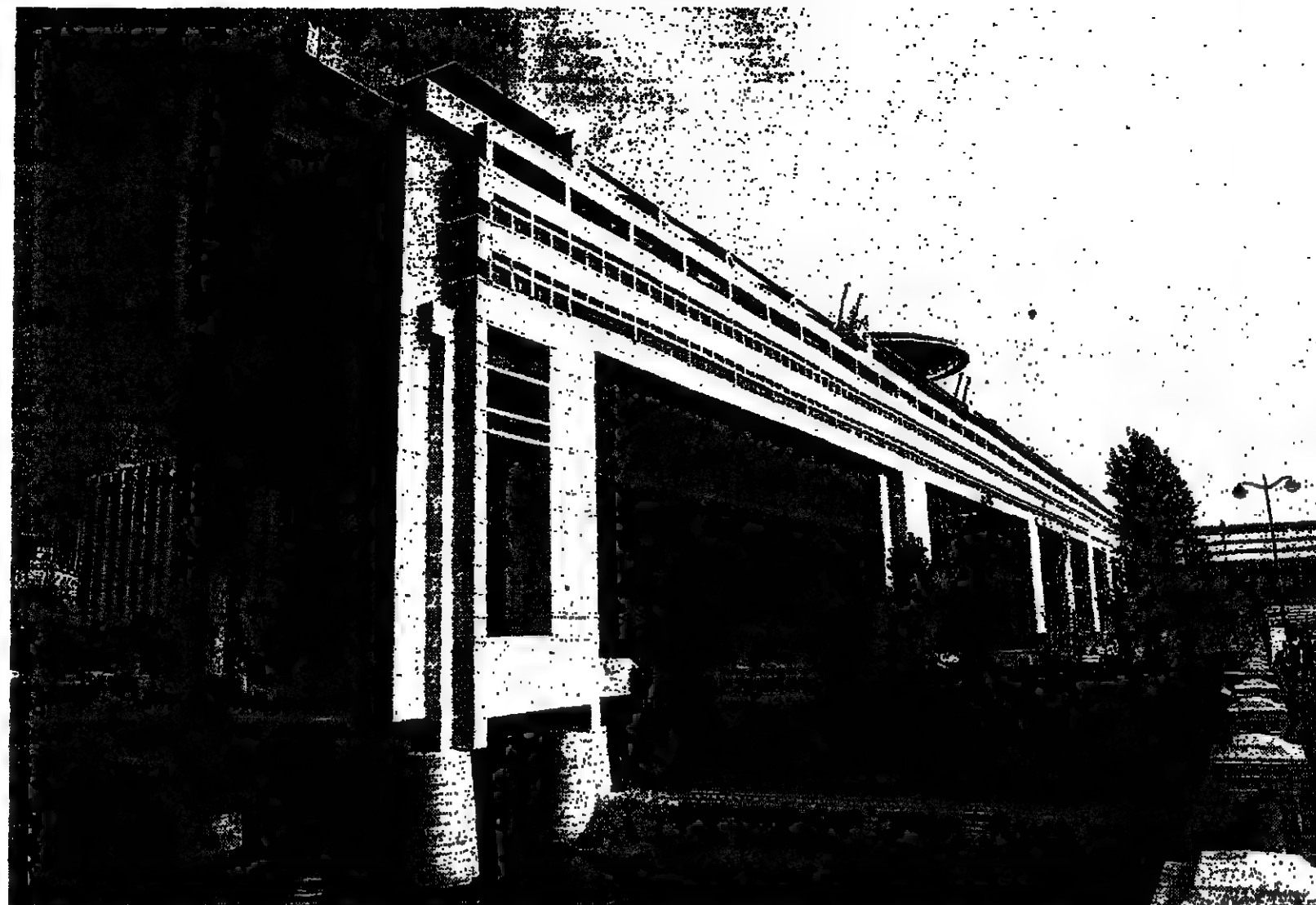
The French economy is still in recession, but seems to have stabilised. Although no sign of industrial investment responding to lower interest rates has yet emerged and consumer confidence is depressed by the continuing rise in unemployment, the consensus among economists is that France will return to growth next year.

"There is no evidence yet of a general economic recovery," said Michel Albert, chairman of AGF. "We're still in a state of stagnation, but there are some positive signs."

It was this promise of recovery that secured the success of the BNP issue. BNP, like the other leading French banks, has had a hard time over the past two years. The credit market has been static for the first time since the second world war and the banks have been forced to make hefty provisions because of the rise in business failures and the collapse of the commercial property market.

All the French banks have suffered but by far the most vulnerable has been Crédit Lyonnais, which last year slashed its staff by a third because of its exposure to a string of corporate horror stories, from the late Robert Maxwell media empire to MGM, the troubled Hollywood movie studio.

The banks are still under strain, but most analysts suspect the worst is over - even for Crédit Lyonnais. Trading is



The ministry of economy and finance at Bercy, Paris: the entire financial system should benefit from the impact of privatisation on the Paris stockmarket

now more stable, as is the property market and, although the banks may have to make more provisions on small corporate loans, they do at least have breathing space to tackle internal issues such as cost cutting and productivity improvements.

"Our performance at the moment is still influenced by the economic situation," said Michel Pébereau, chairman of BNP. "The economy will eventually recover and in the meantime we must concentrate on becoming more efficient and on controlling costs."

The insurance industry is in a similar predicament, albeit for different reasons. The main difficulties for the French insurers were intense competition from the banks and specialist mutual groups in the buoyant life insurance busi-

ness and a steep increase in claims in the less resilient damage sector. They have also been affected by falling commercial property prices, which meant they could no longer compensate for their trading problems with lucrative real estate deals.

Those pressures are now easing. Commercial property is still in the doldrums but the insurers, like the banks, are starting to benefit from recent cost cutting and technology initiatives. Life insurance remains competitive, but the growth of the mutuals seems to have peaked and the market has continued to grow in spite of the recession. Signs of improvement are also appearing in the damage sector, where companies have come- backed the rise in claims by increasing premiums. François

Heilbrunner, chairman of GAN, expects the industry next year to come out of the red in damage insurance.

As a result UAP, AGF, GAN and eventually Crédit Lyonnais should be able to present investors with convincing recovery stories when their privatisations get under way. They should also benefit, as did BNP, from the high level of interest in French equities on the part of international investors. The Balladur privatisations have come at a time when US and Japanese inves-

tors are keen to take advantage of their strong currencies and the US mutual funds are in the process of internationalising their portfolios.

The level of interest among the French public is also high, as illustrated by the BNP issue. Mr Balladur plans to use the privatisation drive to boost share ownership in France. Last summer's ingenious 'Balladur bond' and the decision to price BNP's shares so cheaply are just two of the tactics he has employed. Further, as interest rates fell, equities

should seem even more attractive to the public against the dwindling returns on bonds and cash savings schemes.

The companies themselves all appear to welcome the prospect of privatisation. "Privatisation won't be a revolutionary process for us," said Mr Albert of AGF. "Don't forget we were a private company for many years before we were nationalised in 1948. We've also been preparing to be re-privatised since 1986 and if it had not been for the 1987 stockmarket crash we'd have been sold off

six years ago. We've already changed the culture of the company by making sure that all our employees realise that profitability is our goal."

Yet privatisation will herald some changes. The most obvious differences will be that the government will no longer be able to hire - and fire - senior executives, and that the companies themselves should have more flexibility to raise capital by issuing new shares. The banks may also have more freedom to determine their own policies on interest rates and investment.

Moreover, the entire financial system should benefit from the impact of privatisation on the Paris stockmarket. One of the market's main problems has been a lack of liquidity, caused by a shortage of equity and investment. Privatisation will provide an instant, if partial solution by releasing up to FF45bn (£5.24bn) of new shares on to the Paris market this year and at least FF75bn next year. It should also help to address the investment issue by bringing new capital from international institutions and the French public into equities.

The next landmark for the French financial sector after privatisation will be pension reform, which will not only provide a profitable source of new business for the banks and insurers but should also include the creation of private pension funds.

Pension reform is still at a preliminary stage. Mr Balladur only recently asked Mr Alphandery to create a working party to examine the options for the future. It will be years before the French pension funds can achieve the size and stature of the established funds in the US and the UK.

Yet the formation of fledgling pension funds is at least a step in the right direction. In the long term, the growth of such institutions should ensure that the Paris markets have the support of the type of powerful independent investors that already underpin the markets in London and New York thereby helping to complete the modernisation of the French financial system.

A more dynamic strategy is needed to set the country on its feet again

Changing economic tune

WHEN Edouard Balladur this spring moved into his opulent new offices at the Hôtel de Matignon, the French prime minister's residence, one word cropped up again and again in his speeches - austerity.

Austerity, said Mr Balladur, was the only way that the government could regain control of the French economy and haul it out of recession. He has since changed his tune. Mr Balladur now accepts that he has to adopt a more dynamic strategy if he is to succeed in revitalising the economy - and stemming the rising tide of unemployment - before his centre-right coalition comes up for re-election in spring 1995.

The Balladur government has since unveiled a series of reflationary measures - a public works programme, income tax cuts and employment reform - in a desperate attempt to end the recession. The critical question, with little more than a year to go before the 1995 elections, is whether his efforts will be enough.

Mr Balladur has a tough task on his hands. France took far longer to slip into recession than most of its competitors. The economy continued to grow, albeit at a slackening pace, until the final quarter of last year. It has since stayed stubbornly in recession - squeezed by high real interest rates and a strong currency - with a hefty budget deficit and escalating unemployment.

Interest rates have fallen steadily since the centre-right took power in late March. The franc has also weakened after the ERM crisis in early August when France, like its fellow European Community member states, was forced to widen its ERM trading bands from 2.25 per cent to 15 per cent.

Yet so far there has been little improvement in France's economic performance. The problems of its trading partners, notably Germany, have undermined corporate confidence. The industrial output index stabilised over the summer, having fallen by an average of 1.9 per cent in the first quarter and 0.3 per cent in the second. But a recent report by Société Générale described the "apparent stability" as "very fragile".

Unemployment levelled this summer with the number of people out of work rising in August by just 4,000 to 3.2m, or 11.7 per cent of the workforce, compared with average monthly job losses of 30,000 during the spring. But the rate of job losses is expected to accelerate in the autumn. OFCE, the economic institute, expects the unemployment total to reach 3.4m, or 12.4 per cent of the workforce, by the end of the year.

As a result consumer confidence has remained weak with an inevitable effect



Edouard Balladur: hauling France out of recession will be a tough task

on expenditure. Consumer spending has also been depressed by the high rate of real interest rates, whereby inflation is significantly lower than base rates, in spite of the recent round of rate reductions, making it more attractive for the French to save, rather than spend their money.

The personal savings ratio, which fell to an average of 10.9 per cent in the boom year of 1987, rose to 12.8 per cent last year and now hovers well above 13 per cent, according to Société Générale.

The Balladur government is trying to reverse the trend. Michel Girard, employment minister, this summer launched a series of reforms intended to relax France's notoriously strict employment laws. These included making the 39-hour working week more flexible and waiving employers' social security contributions for the first three new workers they hire.

Nicolas Sarkozy, budget minister, this autumn joined the fray by including in his 1994 budget plan FF15bn of tax cuts, directed principally at the middle classes, and fiscal reforms aimed at shifting French savings towards housing and consumption.

Most economists, and even Mr Balladur's own backbenchers, doubt that these will be adequate. But the French government has little room for manoeuvre. One important constraint is the budget deficit, which limits the scope for public sector spending. Mr Sarkozy's official estimates suggest that the deficit will reach FF817bn this year. Private sector economists expect the final tally to be higher.

Meanwhile the government's ability to reduce interest rates is inhibited by the

need to protect the franc. The French currency has remained relatively robust since the ERM crisis, buoyed by the Bank of France's cautious rate reductions. This policy seems set to continue given that the French authorities are not only anxious about the risk of endangering the franc, but are also keen for the central bank to rebuild its reserves after the ERM crisis and to repay its debts to Germany's Bundesbank. It will be able to accomplish both tasks more easily if the franc stays strong against the D-Mark.

As a result France's economic prospects are pedestrian, at best. Mr Sarkozy hopes to reduce the budget deficit to FF300bn next year, thanks to FF45bn of privatisation proceeds and an anticipated increase in French exports which, he expects, to fuel real growth in gross domestic product of 1.4 per cent.

Other observers are less optimistic. Jean-François Mercier, chief French economist at Salomon Brothers, suspects that the economic difficulties elsewhere in Europe, notably in Germany, will impede France's export growth and that domestic demand will remain depressed. He predicts significantly slower growth in GDP of 0.5 percentage points for France in 1994 with a deficit of FF350bn to FF380bn.

The OFCE agrees. It is braced for even lower GDP growth of 0.3 percentage points next year with unemployment rising to 8.7m, or 13.8 per cent of the workforce by the end of 1994. Jean-Paul Fitoussi, head of the OFCE, described Mr Balladur's reflationary measures as steps in the right direction. But he holds out little hope of seeing the French debt queues shortening before the next elections.

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FRENCH FINANCE AND INVESTMENT 2

The banking industry is looking forward to a year of recovery in 1995

The clouds begin to lift

NOW that the dust has settled after the successful privatisation of Banque Nationale de Paris (BNP), the talking point in French banking circles has moved back to that old favourite, Crédit Lyonnais, and to how much longer Jean-Yves Haberer can cling on to the chairmanship.

Mr Haberer has already hinted that he is on his way out. He recently confirmed that he was considering the offer of another public sector post which is rumoured to be the chairmanship of Crédit National.

The favourite candidate to succeed him at Crédit Lyonnais is Jean Peyrelevade, now head of Union des Assurances de Paris (UAP), the largest French insurance group.

The choice of Mr Peyrelevade looks suspiciously like a calculated piece of political spicing on the part of the centrist Balladur government. Mr Peyrelevade was a socialist appointee, but he is far too influential in French financial circles for the government to fire him.

The chairmanship of one of France's biggest and most glamorous banks is too prestigious a position to be refused, but it also involves the unenviable task of tackling Crédit Lyonnais' financial problems and hauling the bank back into the black.

Luckily for Mr Peyrelevade, or for whoever else takes the helm, the worst may well be over for Crédit Lyonnais and its fellow French banks. The French banking industry has had a tough two years due to the painful combination of a sluggish credit market and the

need to make hefty provisions on falling property values and sour corporate loans.

The clouds are now lifting. The French economy is still in recession, the credit market has yet to respond to the recent reductions in interest rates and the corporate sector remains under intense pressure. But the situation has stabilised and recovery is now in sight.

"I feel that we're at the bottom of the economic cycle," said Michel Pébereau, chairman of BNP. "Our small corporate clients are less pessimistic

Leading revival will be a reduction in the high level of provisions

and there has been a slight improvement in the residential property market. The economy ought to recover progressively from early next year.

The revival of the banking sector is likely to lag a little behind the rest of the economy. One catalyst for its recovery will be an upturn in demand for credit, which should start to improve against the backdrop of the Balladur government's steady reductions in interest rates. However, the trauma of the recession, the first in France since the mid-1970s oil shocks, is likely to make companies cautious about borrowing money.

Consumers are in a similar state and are likely to remain nervous for as long as the toll of job losses continues to rise. "It will take time for confidence to recover both in the corporate sector and among

consumers," said Sheila Garrard, European banking analyst at Lehman Brothers in London. "There is usually a time lag between the end of a recession and a banking recovery. But this recession seemed to hit the French banks very fast, so they may well recover quickly."

The speed of the banks' recovery could be checked by the constant threat of fresh competition from the French post office and other financial services groups, notably the insurers. Conversely the banks should soon benefit from the impact of the productivity programmes implemented in the early 1990s, when they shed staff and invested in new technology.

However the main trigger for the banks' revival will be a reduction in the high level of provisions they have had to make in recent years. Almost all the banks faced heavy writedowns in 1992 because of the downturn in the commercial property market and the steep increase in business failures among smaller corporate clients.

Crédit Lyonnais, which went into the red last year, has also been burdened by its exposure to a string of corporate catastrophes such as the Maxwell media empire and MGM, the stricken Hollywood film studio. The property market has stabilised this year. But the rate of business failures is still frighteningly high. Some banks, including BNP and Paribas, have also faced writedowns on sovereign loans, although the provisioning problem was mitigated in the first half because of the banks'

windfall trading profits on currency and equities.

Ms Garrard of Lehman Brothers expects the level of provisions to stabilise next year and to return to "a more normal level" next year. "Investors have already written off 1993 for the French banks and, according to recent chairmen's statements, we can expect more of the same in 1994," she said. "But everyone expects 1995 to be a year of recovery."

Meanwhile the banks are adopting a restrained approach on the strategic front. Even Crédit Lyonnais, which pursued an aggressive policy of lending and international expansion under Mr Haberer in the late 1980s, sees the mid-1990s as a period for consolidation.

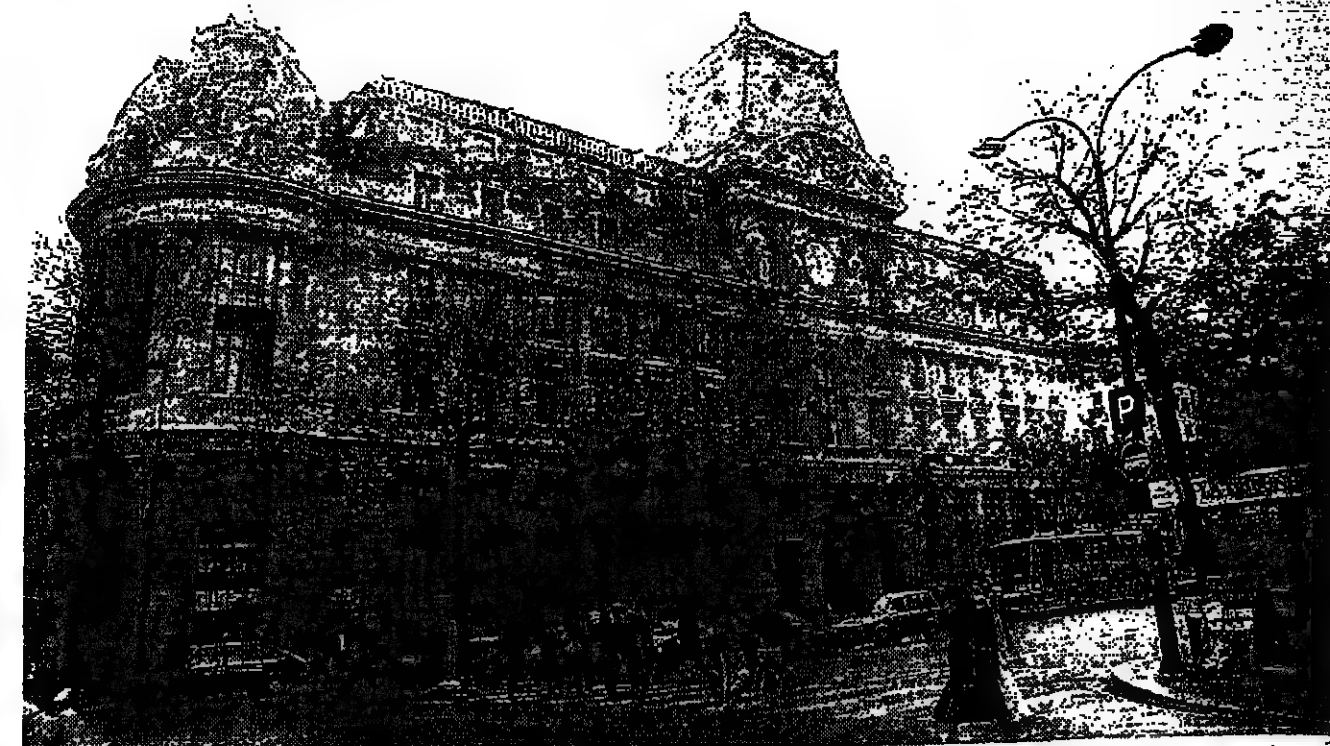
The new chairman's top priorities will be to stabilise the group and repair its balance sheet so that it is in a suitable state for privatisation. Marc Viénot, chairman of Société Générale, has made it clear that, although he might expand the group's industrial banking activities, he favours caution on the international front.

Paribas is still licking its wounds by cutting costs and slowly pruning out peripheral interests after the trauma of its first-ever loss in 1991.

Meanwhile Mr Pébereau sees his strategy at BNP as evolutionary, rather than revolutionary. His international plans centre on developing BNP's partnership with Dresdner Bank of Germany. After BNP's privatisation the two banks have been awaiting the European Commission's approval before finalising the terms of their proposed share swap.

They may then, according to Mr Pébereau, consider linking up with other European banks, albeit on a commercial basis, not through equity exchanges.

"We just couldn't go out and buy a bank in each country within the European Community. It would be too costly and complicated," he said. "The Dresdner agreement enables us to expand within Europe without getting involved with dangerous and expensive investments."



Crédit Lyonnais' headquarters in Paris: after a tough two years, the worst may well be over for the banking industry

Insurers aim to exploit two new areas - pensions and health insurance

Consolidating operations

CLINCHING a deal is almost always important to any self-respecting company chairman, but Jean Peyrelevade, chairman of Union des Assurances de Paris (UAP) was particularly relieved to conclude his company's recent agreement with Suez, the French holding company.

Mr Peyrelevade had for more than four years been trying to persuade Suez to cede its controlling interest in Colonia, the second largest German insurer, to UAP. This autumn he became even more anxious to reach an agreement before UAP's forthcoming privatisation in the face of fierce speculation about his own possible move to become chairman of Crédit Lyonnais.

The main obstacle to UAP's ambitions was Gérard Worms, his opposite number at Suez who had worked for Mr Peyrelevade in the mid-1980s when the latter was chairman of Suez. Whenever UAP and Suez had come close to agreeing a deal in their four years of talks, Mr Worms had hung out for more cash. But Suez has in the past year come under intense financial pressure and Mr Peyrelevade seized his chance.

UAP now owns a controlling stake in Colonia and as a result has leapt up the insurance industry league table to become the second largest insurer in Europe after Germany's powerful Allianz group. Mr Peyrelevade has made no secret of the fact that UAP's next objective will be to oust Allianz from the top slot.

The triumph of the Colonia deal marked a turning point, not only for UAP, but for the rest of the FF672bn French insurance industry.

France's insurers had a tough time in the early 1990s. The Big Four insurance companies - UAP, Axa, Assurances Générales de Paris (AGF) and Groupe GAN - all suffered falls in profits last year because of the parallel problems of the depressed insurance market and the effect of the recession on their property portfolios.

Yet the industry is now edging towards recovery. The worst affected area of the insurance market, the damage sector, is showing signs of improvement. The life business is in a position to benefit from the expansion of two new product areas - private pensions

Net profits of Big Four insurers in (FFr billion)			
	1990	1991	1992
UAP	4.2	3.8	1.1
AXA	3.3	2.4	1.6
AGF	2.7	2.7	1.5
GAN	2.4	2.3	0.4

Source: company accounts

and health policies.

Meanwhile the three state-controlled insurers - UAP, AGF and GAN - are all preparing for sale to the private sector as part of the Balladur government's privatisation programme.

The condition of the French insurance industry differs widely from sector to sector. Demand for life insurance has

Turnover of all French insurers	
Year	FFr billion
1987	348
1988	412
1989	404
1990	534
1991	580
1992	672

Source: FFIA

continued to grow throughout the recession as the nervous French have put their spare cash into long term savings schemes.

At the same time the expansion of the *mutuals*, the specialist financial services companies that grew rapidly in the 1980s, has been checked.

"The life insurance market is still buoyant," said Michel Albert, chairman of AGF. "But the banks have taken most of the growth, rather than the traditional insurers, and profitability is depressed because of the level of competition and reductions in interest rates."

These pressures seem likely to intensify for the foreseeable future, but the insurers do hope to exploit two new

growth areas - private pensions, following the forthcoming reform of the state pension system, and private health insurance, as the government progressively reduces its contribution to the cost of medical care.

Meanwhile the damage insurance market, which was hammered by the recession, is now improving. The insurers have sustained heavy losses in this sector, partly because of escalating commercial claims and partly because of a steep increase in car thefts.

Until recently these difficulties were aggravated by the insurers' reluctance to risk losing business by raising premiums. However, premiums have since risen thereby lessening the pressure on profitability.

"Most companies, including GAN, have been raising premiums," said François Heilbronn, chairman of GAN. "The industry as a whole still isn't technically profitable in damage insurance, but most companies should break even next year."

However, the insurers face a long wait before they can hope to augment the profits from their insurance interests with the proceeds of property disposals as they did in the late 1980s.

Many companies last year had to make hefty provisions on their losses in the property market (generally sustained by banking subsidiaries). The property market has since stabilised, and signs of recovery are beginning to appear in the residential sector, but there is

still little scope for lucrative property deals.

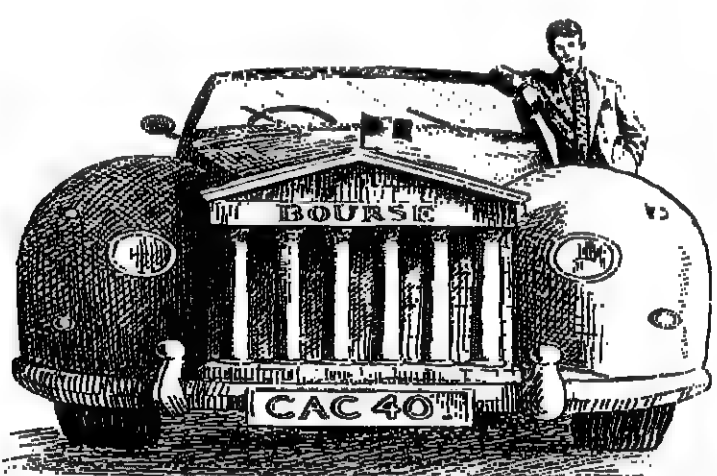
As a result the big French insurers see the mid-1990s as a period of consolidation. The emphasis of their domestic operations is to improve productivity by cutting costs. Some companies, notably AGF, have invested heavily in staff training and information technology to streamline their distribution networks. Others, such as Axa, have experimented with new techniques, such as direct marketing, which could eventually create a cheaper distribution system.

The French insurers are also consolidating their international operations. Mr Peyrelevade has said that the Colonia deal will be UAP's last big acquisition for some time, although the group is continuing talks to try to expand its UK business.

Similarly AGF, having succeeded in acquiring a 33.5 per cent stake in Germany's AMB, envisages a more cautious approach to expansion. Mr Albert said it was time for the group to "consolidate our international operations by improving their profitability". He also said he hoped that privatisation would provide an opportunity to cement AGF's new network by enabling its new partners to buy its shares as *nomads durs*, or "hard core" investors.

Moreover Mr Albert is convinced that the network of strategic stakes and cross-shareholdings amassed by AGF and UAP will be the blueprint for European insurers in the 1990s.

"The AGF of the future will look like a federation, rather than an empire," he said. "There are synergies to be found in information technology, reinsurance and risk control. But the European insurance markets are too different to create huge, centralised groups."



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FINANCIAL TIMES

A COMPETITIVE AND PRO-BUSINESS ENVIRONMENT

France is one of the most attractive countries in the world for international investment. International direct investment (IDI) inflows have quadrupled in the past decade from US \$4 billion in 1987 to US \$16 billion in 1992, taking France to the top of the G7 league for inward foreign direct investment growth.

A sound and solid platform for investment
More than 8,000 foreign companies have invested in France, 4,000 have set up manufacturing facilities and 400 carry out research activities. This shows the growing interest of international investors for France.

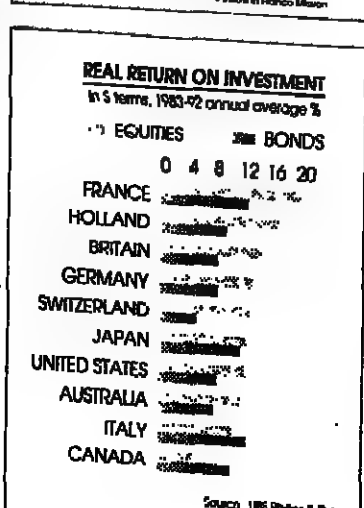
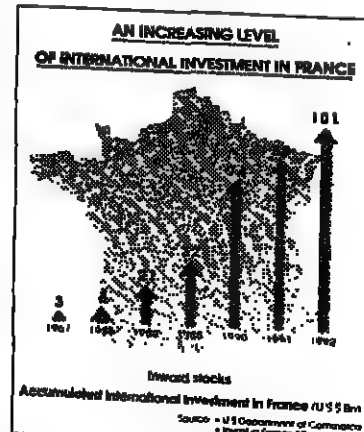
A pro-business environment
France has one of Europe's most liberal regulatory environments for international investment. Corporate taxes have been lowered progressively from 50% to 33.3% in the past eight years. Value added tax (VAT) has declined (for example, from 33.3% to 18.6% on automobiles since late 1992).

Competitive labour costs and productivity
Labour productivity in French manufacturing grew on average 5% a year over the past ten years. A 1992 McKinsey survey shows that productivity in France is the second highest in the world after the United States.

International firms play a major role in the French economy
In 1991, foreign owned companies in manufacturing accounted for 26% of the added value, 22% of the workforce, 27% of investments and 30% of exports.

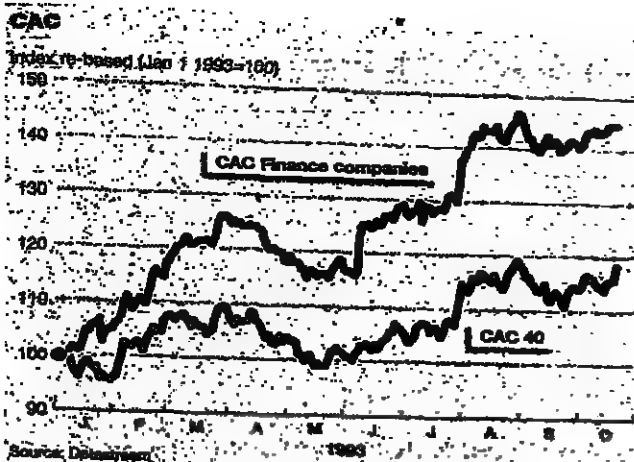
Investment in France is profitable
"The Economist" wrote in February 1993: "Where would investors have enjoyed the best returns on their money over the past ten years? THE ANSWER IS FRENCH EQUITIES - \$100 invested in French shares at the start of 1983 would have been worth \$902 at the end of 1992. In real dollars terms French equities yielded an annual average return of no less than 20% over the ten years."

The program to privatize 21 major French companies, including banks (BNP, Crédit Lyonnais), insurance companies (UAP, GAN, AGF) and industrial firms (Elf, Renault, Total, Rhône-Poulenc...) offers new business opportunities to international investors.



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THE CORPORATE SECTOR

Less grim than signs suggest

ANYONE who read the recent round of interim statements from the heads of large French companies could be forgiven for thinking that corporate France was in a sorry state.

The French economy is still in recession. There is no sign of an upturn in domestic demand and the franc is too strong to trigger an increase in exports. The companies quoted on the CAC-40 index are now nearing the end of their fourth successive year of earnings decline.

Yet the full picture is not quite as grim as the interim statements suggest. Analysts have already written off 1993 as yet another year of

The corporate sector is now in a positive cash position for the first time in decades, according to the Bank of France

depressed earnings, but they expect 1994 to mark the start of the recovery. Moreover corporate France is in sound financial shape. The corporate sector is now in a positive cash position for the first time in decades, according to the Bank of France.

These positive signs have sent the CAC-40 index soaring for much of this year. Foreign investors, particularly the US and UK institutions, have poured new capital into France. A number of French companies, notably the Axa insurance group and Schneider electrical engineering concern, have taken advantage of their strong share prices by staging capital-raising exercises.

The optimistic analysis of the French corporate sector should not be overstated. Many companies are still under intense financial pressure.

The domestic market has been sluggish for some time but until last autumn, French industry did at least have the consolation of strong export growth, thanks to the combination of years of low inflation and a competitive currency.

Last autumn's currency crisis put a stop to that. The franc's relative strength since September 1993 has not only reduced reported profits from international subsidiaries but has dealt a devastating blow to sales of French products in weaker currency countries such as the UK, Spain and Italy.

The export squeeze is one of the main difficulties facing LVMH, the luxury goods group, which recently issued a profits warning for the full year after announcing a fall in first half profits. Peugeot, the car maker, blamed adverse exchange rates for its first half losses, as did Michelin, the tyre group. Renault, the other major French motor company, saw its recovery checked by a steep fall in interim net profits.

The picture is equally bleak on the domestic front. Consumer spending is still stubbornly static. There is also no sign of an increase in indu-

trial investment, partly because French companies are continuing to bask in the benefits of their heavy investment in the late 1980s and partly because the depressed state of demand leaves them with little incentive to increase capacity.

A number of retail groups, including Pinault-Printemps and BHV, have recently announced reduced interim profits. The banking and insurance groups are still being forced to make steep provisions because of the property crisis and the alarming rate of small company failures. Credit Lyonnais, the most vulnerable of the big banks, recently reported a FF18bn interim net loss.

Unsurprisingly, the toll of job losses has continued. The number of people out of work has risen by more than 300,000 since the start of this year to reach over 3.2m, or 11.7 per cent of the workforce. A number of large groups have accelerated their rationalisation drives, including Air France and Michelin. LVMH is embroiled in an ugly battle with the champagne trade unions over its plans to shed staff for the first time in the champagne industry's history.

The Balladur government hopes that unemployment will stabilise next year, albeit at a frighteningly high level. Even the most pessimistic private sector economists expect to see some growth for French gross domestic product in 1994. Corporate profits should also improve. James Capel in Paris anticipates a 40 per cent increase in CAC-40 earnings

The privatisation drive has triggered a flurry of negotiations over cross-shareholdings and strategic stakes.

for 1994 (fuelled mainly by the financial sector) after a 14.8 per cent fall in 1993.

Corporate activity is already picking up. The government's privatisation drive has triggered a flurry of negotiations over cross-shareholdings and strategic stakes as companies volunteer to be *noyaux durs*, or 'hard core' shareholders, in the privatisation candidates. The government was spoilt for choice in selecting *noyaux durs* for Banque Nationale de Paris (BNP), the first privatisation issue. It is now lining up candidates for future sales.

Privatisation has also heralded a series of 'parallel' deals. Renault has finally completed its long-awaited merger with Sweden's Volvo. Union des Assurances de Paris speeded up talks with the Swiss holding company to finalise its deal over control of Colonia, the German insurer, before its privatisation gets under way.

Meanwhile Lafarge Coppée and Générale des Baux have joined the queue of private sector companies raising capital from the Paris markets, so that they can take advantage of any strategic opportunities that arise while the franc is still strong and the stock market is buoyant.

It is hoped that the stockmarket will benefit from privatisation with an increase in equity investment

Rekindling the public's interest

IN THE unveiling of his privatisation plans, Edmond Alphandéry, the French economy minister, made clear that his government saw the share sales not only as a means of raising capital, but also as a chance to raise the level of investment in the Paris stockmarket.

The market has long been waiting for such an initiative. The last real boost for French equities was the centre-right government's privatisation drive in 1986 and 1987, which drew international investors into the Paris market and encouraged the French public to switch some of their savings into equities.

International investors have continued to plough their money into France, but the October 1987 stockmarket crash brought the French public's new found interest in share ownership to an abrupt halt. The current round of privatisations offers an ideal opportunity to try to rekindle the public's interest.

The privatisations could not have come at a better time from the stockmarket's perspective. The French financial sector was transformed in the late 1980s by a sweeping deregulation programme in which

old monopolies were abolished, closed markets opened and the *Matif*, now one of the world's largest futures markets, was launched.

However the stockmarket's progress has since been impeded by the survival of old anachronisms such as the *impôt de bourse*, the tax on share transactions, and the strict rules on block trading.

The main issue facing the Paris stockmarket is its low level of liquidity - the legacy of a dearth of equity and capital

which have prompted many traders to execute larger deals in London rather than Paris.

Edouard Balladur's government, like that of the late Pierre Bérégovoy, his socialist predecessor, has tried to address these difficulties with mixed success. Meanwhile the overhanging issue facing the Paris stockmarket is its relatively low level of liquidity - the legacy of a dearth of equity and of capital.

The equity shortage is due partly to the nepotistic structure of the French corporate sector whereby many large

companies, including Michelin and L'Oréal, are still controlled by their founding families. The other groups have negotiated so many cross-shareholdings and 'sweetheart' deals that they are not only virtually illiquid, but only a small proportion of their shares are actually traded.

Another contributor to the equity problem is the power of the state, which still controls many of France's largest companies. The Balladur privatisations represent a powerful, if partial, solution by unleashing around FF15bn of new shares on to the stockmarket this year and at least FF15bn next year.

'Liquidity has been a problem for the Paris market, but the situation is getting better,' said David Harrington, French market analyst at James Capel in Paris.

'The privatisations should help and we have also seen a great deal of private sector activity this year with convertible bond and warrant issues. By the end of 1993 the Paris market will have been tapped for up to FF70bn.'

Privatisation should also help to assuage the other side of the liquidity problem: the shortage of capital caused by the traditional ambivalence of

the French towards equity investment and the state's stranglehold over the pensions system, which means that Paris, unlike London and New York, can not count on an influx of investment from private pension funds.

The forthcoming reform of French pensions, which is likely to involve the creation of private pension funds, should provide a long-term solution to this problem. But in the meantime the privatisations should at least bring in a short-term flow of capital from foreign institutions and the French public.

The increase in foreign investment was one of the main achievements of France's last privatisation drive. The 1986 and 1987 share sales provided an opening for international investors into the Paris market and the proportion of French equities in foreign hands has since increased steadily, rising from 21 per cent to 28 per cent in the last two years alone, according to the Bank of France.

So far the present privatisation plan seems set to bring yet more foreign capital into France. The government was forced after just two days to close the institutional part of

its first privatisation, the Banque Nationale de Paris (BNP) share sale, because of strong demand, particularly from US investors.

These investors were undoubtedly attracted by the unexpectedly low price of the BNP shares. The strong dollar was an additional incentive for US investors, as was the strong yen for the Japanese. However,

Recent interest rate reductions and the hope of further cuts should make equities seem increasingly attractive

analysts have also detected an underlying increase in interest in the Paris market.

'This is a great time to buy French shares,' said Thierry Tamers, head of North American sales at Baring Securities in Paris. 'The economy is probably at the bottom of the cycle and many of the privatisation candidates, like BNP, are recovery stocks.'

The successful outcome of the public part of the BNP issue also boded well for the government's prospects of persuading the French public to participate in the privatisation.

The French responded well to the mid-1980s privatisations - when 11 per cent of the population bought FF740bn, or almost a third, of the available shares - but the 1987 crash dashed the government's hopes of boosting share ownership. The number of private investors has since fallen from 5.5m to less than 4.5m.

The Balladur government hopes to reverse this trend. This summer's FF110bn 'Balladur bond' issue was cleverly designed as a bridge to persuade the French to switch their savings, first into government bonds, and then into privatisation shares. Recent reductions in interest rates, coupled with the prospect of further cuts, should make equities seem increasingly attractive in comparison with the dwindling returns on cash investments.

'Everything is conspiring to make the equity market look very attractive against cash - a savings glut, low inflation and falling interest rates,' said James Capel's Mr Harrington. 'We're still waiting to see a flow of funds from cash into shares in France. The privatisation programme may be exactly what investors have been waiting for.'

Company Location: What's New in Europe?

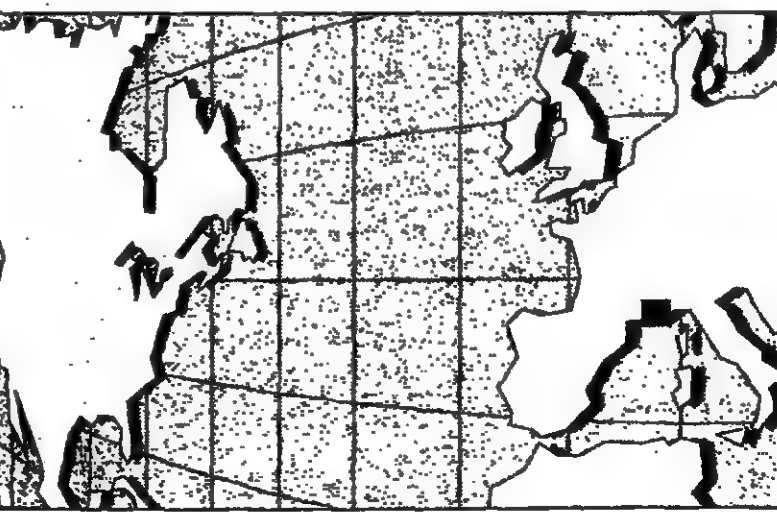
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SRI LANKA 4

■ SECURITY

Fresh confidence among army chiefs

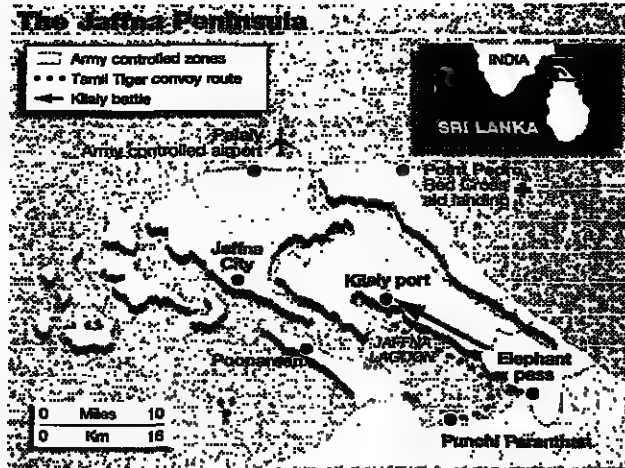
MORE than 300 people were killed and hundreds injured earlier this month in one of the fiercest battles of the 11-year war between Sri Lanka's armed forces and Tamil Tiger guerrillas.

But political and military observers say what was unusual about the battle for Kilaly - a small guerrilla port on the edge of the Jaffna lagoon - was not the scale of the action but the fact that seven Sri Lankan army officers were killed in the fighting.

Army officers, members of a once largely ceremonial force, have not been noted for leading from the front. But after nearly a year of inactivity following the deaths of several senior commanders in a landmine explosion, there is now a new grit and determination at the top in Sri Lanka's 80,000-strong army.

The country's senior military commanders, confident they have the country's troubled Eastern province under control, say they have at last been given the go-ahead to retake the rebel-held northern peninsula of Jaffna, from which they were expelled in humiliating circumstances in 1990.

This confidence appears to be percolating down to even the most battle-weary of front-



line officers. President D. B. Wijetunga - angered by earlier political prevarication, the assassination in May of President Ranasinghe Premadasa and the high cost of a war that has claimed 32,000 lives - has publicly vowed to crush terrorism.

Not for him the policy of his predecessor who accommodated guerrillas in five-star hotels. Mr Wijetunga appears to believe it is not possible to negotiate with Mr Velupillai Prabhakaran, the autocratic and militarily brilliant leader of the Tigers. "There is no eth-

nic problem in the north, only terrorism," says Mr Wijetunga. Defence Department officials refuse to say when the main offensive across the war-torn Jaffna peninsula - also home to about 600,000 Tamil civilians - is likely to be launched. But military commanders hint that it could come next year.

The army has already started building up its strength. Ten thousand new recruits are under training and more are expected. The total complement may end up at about 100,000 men.

The military plans to buy helicopter gunships, landing craft and fast patrol boats for the confrontation with an estimated 3,000-4,000 well-armed and trained guerrillas who have been fighting for an independent Tamil homeland.

Part of the explanation for the more determined political will in Colombo, and the army's new confidence, may lie in the recent success the military has had in bringing an element of normality back to the country's troubled Eastern province.

Less than three years ago, the province's two main cities of Trincomalee and Batticalora were in rebel hands and large tracts of the mixed Tamil, Moslem and Sinhalese province were no-go areas to the army and the civil authorities. Today, most of the province is under government control, at least during the day, and many Tamil Tiger guerrillas based in the area appear to have fled north to the Jaffna peninsula.

The government is planning to hold local elections in the Eastern province in February and, later in the year, a refer-



A young soldier guards the Pataly perimeter, just eight miles from Jaffna City

Picture: Richard Cowper

endum on whether to merge with the country's northern province. If local elections are successful, tens of thousands of Sri Lankan troops could be released for duty in Jaffna.

President Wijetunga, who is also Sri Lanka's finance minister, is intent on trying to catapult his country into the ranks of the newly industrialised nations by the beginning of the next century, and is only too well aware of the heavy economic toll the war is taking on a country where many still live below the poverty line.

To finance soaring war costs the government has recently been forced to impose a special defence levy of 3 per cent on all transactions, operating in a manner similar to value added tax. This year, direct military expenditure is expected to total

more than SL\$250m - about 15 per cent of the budget - but at least the same amount again is spent on feeding and rehabilitating the war-torn civilian population in the north and east.

Thousands of foreign investors have been frightened away by the fighting and many believe the number of tourist arrivals could climb to more than 1m within a few years if the war was ended. The economy of Jaffna, once the biggest supplier of fish and cash crops in Sri Lanka, is at a standstill and tourists no longer visit the East with its fabulous beaches.

President Wijetunga appears to be willing to stake all on the attempt to recapture the Jaffna peninsula guerrilla stronghold by force in an attempt to bring the war to a swift conclusion.

dig-in group of 1,000 guerrillas took the Sri Lankan forces by surprise and in bitter hand-to-hand fighting killed 118 soldiers.

Hardcore guerrillas, led by a daring military strategist, may number little more than 5,000 throughout Sri Lanka, but they were able to defeat 120,000 Indian troops in the late 1980s. Every combatant carries a cyanide pill around the neck, which they swallow rather than allow themselves to be taken prisoner alive.

There may be fewer guerrillas, and less well-trained, than when they pushed the Indians out and when they controlled much of the Eastern province, but they remain as ruthless and are still able to assassinate politicians and military commanders.

There is some evidence they may no longer have such fierce support from the Tamil population in Jaffna. Creation of Tamil Eelam (the rebel's free state) is as far away as ever and some locals have dared to speak out against a guerrilla force, whose tax collecting ability at home and abroad, is legendary. But after a decade of indoctrination most ordinary Tamils in Jaffna still fear Sri Lanka's "Sinhalese Buddhist army" more.

Even if Tamil civilians did not fight voluntarily they might be forced into battle on the side of the guerrillas. It is by no means certain that the Sri Lankan armed forces could march into Jaffna city without killing on the way tens of thousands of civilians in the densely-populated province.

House-to-house fighting in the city could be even bloodier, and the question no one seems able to answer with confidence is whether the army yet has the numbers, ability and determination to retain control of the peninsula once it has marched in.

Richard Cowper

■ The battle for hearts and minds

Humanitarian effort to feed civilians

WHEN Colombo put down in bloody fashion a Sinhalese nationalist uprising in 1989 it soon found itself having to contend with a volley of international condemnation. Its systematic abuse of human rights also alienated many of its own people, writes Richard Cowper.

Today, Sri Lanka is still fighting a guerrilla war but it has put greater efforts into winning hearts and minds at home and abroad.

The country is now known overseas for its unique humanitarian effort in providing virtually all the food and necessities to more than 600,000 Tamil civilians living in the rebel-controlled Jaffna peninsula, where Tamil Tiger guerrillas

have been waging an 11-year struggle for an independent homeland.

"Normally, civilians trapped in guerrilla-controlled areas have to find their own food," says Mr Dominic Dufour, head of the International Committee of the Red Cross (ICRC) based in Colombo.

"The government has realised that no rebel with a Kalashnikov ever starves. But this programme is unique. It's the only country in the world where you can officially mail a letter from the capital to a rebel stronghold."

The government started the programme in 1990 and now spends more than \$600m a year, despatching an average

of 10,000 tonnes of food each month to Jaffna in a fleet of cargo ships under the supervision of the ICRC.

The food is distributed free to about 240,000 people who have been displaced from their Jaffna homes. The rest is sold in shops to civilians and guerrillas alike, under the watchful gaze of highly-efficient Tamil Tiger tax collectors.

Mr Christie Silva, in charge of the programme at the Ministry of Reconstruction and Rehabilitation says: "It's true we do not want hundreds of thousands of civilians fleeing south. But neither do we want to see starvation."

"We have to think of the future: after all, they are our people; they are also Sri Lankans."

No one is pretending the government is without fault. There are reports of malnutrition in some areas of Jaffna. A ban on diesel shipments, to deny guerrillas fuel for their vehicles, means there is a

power blackout for most nights of the month.

The country's 80,000-strong army sometimes oversteps the mark in its bitter struggle to recapture large areas of the north and some patches of the east which are still controlled by the guerrillas.

In a visit this month to the Pataly army-controlled zone, just north of Jaffna city, I saw several night-time images of 150mm howitzer shells in an area so densely populated anything less than perfect accuracy is likely to kill or injure non-combatants.

Reports of civilian Tamil deaths by army shelling are not uncommon.

But in the war for hearts and minds, there is some evidence that the government may be winning. A proposal to hold local elections in the country's troubled eastern province is seen as a further step towards normality in an area once largely controlled by the Tamil Tigers.

In the north, the growing financial predations of the guerrillas against a hard-pressed and besieged civilian population are beginning to take their toll.

Some Tamil civilians appear to have become heartily sick of the war and might even welcome a return to civilian control.

But Mr Velupillai Prabhakaran, the ruthless Tamil Tiger leader, does not appear to be willing to negotiate a political solution and Colombo therefore sees itself compelled to pursue a military one.

All the hard-won gains could disappear overnight if the army attempts to recapture the Jaffna peninsula, as it is threatening to do.

Thousands of Tamil civilians might be killed and the Tigers would do everything in their power - including using human shields - to ensure that Sri Lanka's image was again tarnished in the eyes of the international community.

■ Co-operation with India

New Delhi has score to settle

OPERATIVES of New Delhi's secret service Special Investigation Team (SIT) set up to track down the killers of Mr Rajiv Gandhi, the former Indian prime minister, are now regular visitors to Colombo, writes Maryn de Silva and Richard Cowper.

SIT is working closely with Sri Lanka's police and intelligence services and its mission is clear: seize or kill Velupillai Prabhakaran founder and commander of the separatist Liberation Tigers of Tamil Eelam (LTTE) and the man they are convinced master-minded the assassination of the Indian prime minister.

Mr Gandhi was killed in May 1991 by a young female Tamil suicide bomber from Sri Lanka at an election rally in the southern Indian city of Madras. The *modus operandi* was very similar to that used by the LTTE to murder Sri Lanka's President Premadasa at an election rally in Colombo in May this year.

The co-operation between New Delhi and Colombo in this and other security areas is a far cry from the last decade when India operated a policy aimed at destabilising her tiny southern neighbour.

Today, New Delhi no longer supports and arms Tamil Tiger guerrillas. It fears that it might end up with its own rebel movement in the fractious southern Tamil state of Tamil Nadu and is taking a tough line against LTTE arms smuggling.

Earlier this year, the Indian navy captured and destroyed a trawler in the Palk Straits, a 20-mile strip of water that separates Tamil Nadu and Sri Lanka's Jaffna peninsula. As well as arms and explosives, on board was Prabhakaran's right-hand man, known as

Kittu. He and a number of other senior LTTE commanders died in the incident in circumstances that have never been fully explained.

The loss of Kittu is said to have been a heavy blow to the rebel leader. Prabhakaran is said to have placed great reliance on Kittu as one of the few commanders he could trust.

So deep is his fear of New Delhi that he recently placed Mahattya, his deputy, under house arrest in Jaffna as a suspected "Indian agent."

All this seems an age from the early 1980s when Rajiv's mother, Mrs Indira Gandhi, ordered RAW - India's equivalent of the CIA - to arm and train cadres of a tiny Tamil rebel movement in secret Indian camps. The close relationship began to break down when Rajiv - who succeeded his mother as prime minister after she was assassinated by her Sikh bodyguard - signed an Indo-Sri Lankan peace accord in 1987. An Indian peacekeeping force was dispatched to Jaffna to force a settlement on the Tamil Tigers.

India and Mr Gandhi were to pay dearly for this change in policy. With just a few thousand guerrillas, Prabhakaran engaged and drove out an Indian army of 120,000 men. At least 7,000 Indian soldiers died and many more were wounded before the pullout came in 1990.

In parts of Tamil Nadu - the traditional Dravidian enemy of the Buddhist Sinhalese - the Tamil Tigers are still seen as heroes. But New Delhi has a new foreign policy of regional co-operation and a very deep personal score to settle with the man who brought to a premature end the reign of India's most famous political dynasty.

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FINANCIAL TIMES COMPANIES & MARKETS

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INSIDE

SKF optimistic despite deeper loss

SKF, the world's leading roller bearing maker, has fallen into a deeper loss for the first nine months but it says a turnaround is imminent. It said the UK, Italy and Sweden were picking up and other European markets stabilising. Page 16

RJR Nabisco pays for price war

RJR Nabisco, which makes Winston and Camel cigarettes, has unveiled a 56 per cent drop in third quarter net income, reflecting the impact of its price war with Philip Morris. Page 17

JR East opens at 58% premium

Shares in East Japan Railway (JR East) soared 57.8 per cent above their initial offer price when half the company's shares were floated on the Tokyo stock exchange yesterday. Page 18

Pressing competition

Oriental Press, the most profitable Chinese language publisher in Hong Kong, is about to launch the first new English language newspaper in more than a decade, aiming to compete directly with the profitable South China Morning Post. Page 18

Japanese electronics fall

Matsushita Electric Industrial and Sharp, the Japanese consumer electronics companies, have reported steep falls in first-half profits. Matsushita fell 43 per cent to ¥229.7bn (\$260.2m) while Sharp fell 23 per cent to ¥20.2bn. Page 19

What's in the bag at Ferranti

A buyer of Ferranti would be acquiring a mixed bag of businesses. The company is a software house and systems integrator, it has a sonar joint venture and sells naval control and command equipment around the world. Andrew Bolger and Daniel Green assess the company in the light of the news that it is in talks with an unnamed bidder. Page 21

Calred makes £17.6m write-down

Calred, the waste management company, reported an interim pre-tax loss of £25.14m (\$37.2m) after an exceptional £17.6m write-down of its assets. Page 21

Betterware shares slip

Shares in Betterware, the home shopping company, fell 10 per cent to 190p in spite of a 21 per cent increase in interim pre-tax profits to £2.6m. Page 22

Swedish equities diesel gloom

In the month when Sweden's leading car trade union has said that the country is in a depression and the government has predicted the worst economic performance since the second world war for this year, shares have been dragged through the oil-time high. At yesterday's close, the Affarsvecklingen general index showed a gain on the year to date of more than 50 per cent. Back Page

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Base lending rate	3%	London share index	2627
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Chief price changes yesterday

FRANKFURT (DM)	PARIS (FF)	STOCKHOLM (SEK)
AlfredSignal	699	40
Amoco	794	10
BSA	336	10
Baxter Int'l	677	10.5
Bethlehem Steel	1102	13.5
Betterware	1102	13.5
Brigand	1102	13.5
Calred	1102	13.5
Cameron	1102	13.5
Cummins Engine	1102	13.5
Daewoo	1102	13.5
Danish Bank	1102	13.5
Dormex	1102	13.5
East Japan Railway	1102	13.5
East-Japan Railway	1102	13.5
Edgemoor	1102	13.5
Essex	1102	13.5
European Leisure	1102	13.5
Fairfax	1102	13.5
Ferranti	1102	13.5
Ferranti Int'l	1102	13.5
GE Int'l	1102	13.5
GBL	1102	13.5
Geared Income Inv	1102	13.5
General Motors	1102	13.5
Gowett Strategic	1102	13.5
Harwell Whiting	1102	13.5
Hindustan Lever	1102	13.5
IBM	1102	13.5
Inland Steel	1102	13.5
Komatsu	1102	13.5

London (Pence)

Shares	Options	Shares	Options
AlfredSignal	23	AlfredSignal	23
Amoco	177	Amoco	177
BSA	179	BSA	179
Baxter Int'l	131	Baxter Int'l	131
Bethlehem Steel	239	Bethlehem Steel	239
Betterware	239	Betterware	239
Brigand	239	Brigand	239
Calred	239	Calred	239
Cameron	239	Cameron	239
Cummins Engine	239	Cummins Engine	239
Daewoo	239	Daewoo	239
Danish Bank	239	Danish Bank	239
Dormex	239	Dormex	239
East Japan Railway	239	East Japan Railway	239
East-Japan Railway	239	East-Japan Railway	239
Edgemoor	239	Edgemoor	239
Essex	239	Essex	239
European Leisure	239	European Leisure	239
Fairfax	239	Fairfax	239
Ferranti	239	Ferranti	239
Ferranti Int'l	239	Ferranti Int'l	239
GE Int'l	239	GE Int'l	239
GBL	239	GBL	239
Geared Income Inv	239	Geared Income Inv	239
General Motors	239	General Motors	239
Gowett Strategic	239	Gowett Strategic	239
Harwell Whiting	239	Harwell Whiting	239
Hindustan Lever	239	Hindustan Lever	239
IBM	239	IBM	239
Inland Steel	239	Inland Steel	239
Komatsu	239	Komatsu	239

Sales stabilise but Big Blue's structure still 'uncompetitive', reports Louise Kehoe IBM cost-cutting checks losses

LOSSES at International Business Machines were lower than expected in the third quarter, as revenues stabilised and cost-cutting began to take effect. Nonetheless, Mr Lou Gerstner, chairman and chief executive, said: "The company's cost and expense structure remain uncompetitive. During the third quarter, aggressive internal taskforce work took place to identify additional areas where our costs can be reduced."

IBM could return to profitability "as our gross margins increasingly match those of the rest of our industry. I am confident IBM is on the right track," he said.

Net losses for the quarter were \$45m, or 12 cents per share, better than analysts' predictions. Earnings were boosted by a \$34m tax benefit in the same period. Last year IBM reported a net profit of \$36m, or 15 cents a share, before restructuring charges, but a loss of \$2.8m, or \$4.87 per share, after that.

The decline in revenues was halted with the company making \$14.7bn, similar to the second quarter. IBM said strong personal computer sales and a slower rate of decline in mainframe computer sales had helped stabilise the figure. "Although our overall results are clearly satisfactory, the third quarter included some encouraging signs," Mr Gerstner said.

"Our total revenues held steady year-over-year and our overall gross margin and hardware gross margin have remained essentially flat for the past four quarters."

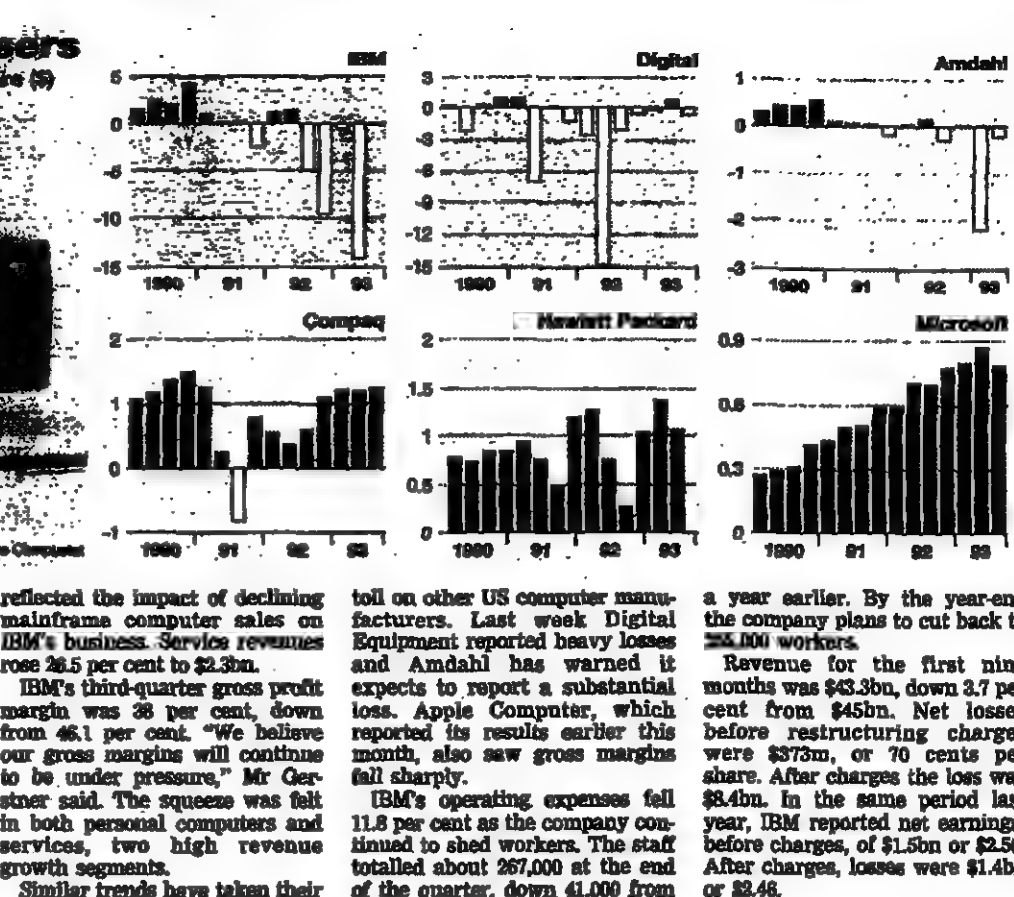
Sales of computer hardware fell just 1 per cent on last year's third quarter at \$6.95bn. Analysts had predicted a decline of about 10 per cent. But revenues from rentals and financing fell 14.3 per cent to \$1bn, and software revenues also declined. These trends reflected the impact of declining mainframe computer sales on IBM's business. Service revenues rose 26.5 per cent to \$2.3bn.

IBM's third-quarter gross profit margin was 38 per cent, down from 46.1 per cent. "We believe our gross margins will continue to be under pressure," Mr Gerstner said. The squeeze was felt in both personal computers and services, two high revenue growth segments.

Similar trends have taken their toll on other US computer manufacturers. Last week Digital Equipment reported heavy losses and Amdahl has warned it expects to report a substantial loss. Apple Computer, which reported its results earlier this month, also saw gross margins fall sharply.

IBM's operating expenses fell 11.8 per cent as the company continued to shed workers. The staff totalled about 267,000 at the end of the quarter, down 41,000 from a year earlier. By the year-end the company plans to cut back to 250,000 workers.

Revenue for the first nine months was \$43.3bn, down 3.7 per cent from \$45bn. Net losses before restructuring charges were \$373m, or 70 cents per share. After charges the loss was \$4.4bn. In the same period last year, IBM reported net earnings, before charges, of \$1.5bn or \$2.56. After charges, losses were \$1.4bn or \$2.44.



Swedish opposition grows to Volvo/Renault merger

By Hugh Cunniff in Stockholm

OPPOSITION mounted in Sweden yesterday to Volvo's proposed merger of its vehicle manufacturing with Renault of France, despite a detailed defence of the plans by the company.

United trade union support for the deal cracked as 300 Volvo engineers called for the merger to be postponed until after Renault was privatised. A committee representing more than 5,000 white-collar workers decided to vote against the accord at the November 9 extraordinary general meeting.

Two influential newspapers also voiced their opposition. Mr Mats Svedberg, editor of Svenska Dagbladet, the respected conservative daily, wrote that if necessary the government should step in to prevent Volvo, the country's leading manufacturing group, falling under French control. Dagens Industri, Sweden's leading financial daily, also said the merger should be delayed until 1995, after Renault had been freed from state control.

A spokesman for Volvo acknowledged that momentum was building against the merger, but said it was not clear that Volvo shareholders shared this view.

"The company circulated a 66-page document to shareholders saying the merger was a 'logical and necessary extension' of a three-year-old alliance between Volvo and Renault. It said Volvo's 35 per cent share in the merged company would be an 'important cornerstone' in a 'radically restructured Volvo' which would broaden its interests to include a 100 per cent share in the cash-rich Brändö Consumer Products, now part of Procter, a food and pharmaceutical group jointly controlled by Volvo and the Swedish state."

Mr Pehr Gyllenhammar, Volvo's chairman, insisted Volvo would retain a "major influence" in the merged Renault-Volvo company despite the 65 per cent weighting in favour of French interests. He said Mr Lennart Jespersen, head of Volvo cars, and Mr Karl-Erik Tegen, head of Volvo heavy trucks, would respectively become chief financial officer and head of trucks and buses in Renault-Volvo on a five-man management board headed by Mr Louis Schweitzer, Renault chief executive.

Mr Gyllenhammar said Renault was making the biggest-ever foreign investment in Sweden and was hardly likely to damage this by running down Volvo's Swedish base. Volvo would be contributing to the process of building Europe. "We have to realise that such work requires both giving and taking."

The Swedish small shareholders' association which has led opposition to the merger, dismissed the Volvo leaflet, saying it gave no clearer picture of the valuation of Volvo's assets in the merger. Lex, Page 14

Investors angry at Ryan's GPA \$2m

By Roland Rudd in London

MR TONY RYAN's compensation could total \$2m for loss of office from GPA Group, the aircraft leasing company being rescued from bankruptcy by GE Capital, of the US.

The proposed pay-off so outraged some GPA shareholders that they threatened to veto the deal. In response Mr Ryan agreed the payment should go to arbitration by a senior lawyer.

He is leaving the Sharnbrook-based company he founded in 1975 to become chairman of the GE Capital subsidiary, GE Capital Aviation Services, which will manage GPA's assets.

His contract as chairman and chief executive of GPA, which runs until the July 1994, provides for an annual salary of not less than £250,000 (\$392,000). Pension contributions and compensation for loss of office are understood to take the total package to \$2m.

However, some shareholders, threatened to withhold their support from the GE agreement unless Mr Ryan's compensation was settled by a third party. GPA, saddled with debts of \$5.5bn, has seen the value of its shares collapse from a high of \$28 to less than \$1.

The pension fund of the teachers of the state of Pennsylvania - the Public School Employees' Retirement system (PERS) - which two years ago subscribed to a preference share with a conversion price of \$36, was particularly incensed.

Mr John Lane, PERS' chief investment officer, yesterday said "it remains to be seen" whether Mr Ryan would get his \$2m.

One banker said: "The question of Mr Ryan's compensation caused a lot of unease among shareholders but his contract clearly stipulates that he is owed \$2m." A GPA spokesman said: "The matter is still being decided by arbitration."

Mr Ryan's pay-off is no longer threatening the GE deal, which may be signed this week.

Barry Riley On derivatives, conjurors and rocket scientists

When derivatives come out of the rocket scientists' lab into the domestic retail market, journalists start to get edgy. We do not believe in magic, although we do know there are some clever conjurors around.

A few weeks ago I expressed reservations about the promises attached to some of the high income retail savings products being launched in the UK to attract income-starved investors. One of them, the Hypo Foreign & Colonial Higher Income Plan, yielding 10 per cent, has attracted about \$400m since March.

Its success has triggered the arrival of a similarly structured rival from Morgan Grenfell. Briefly, this scheme works by leveraging its income through writing options. Just over half the assets are invested in UK blue chip equities, the rest in loans. On top of the resulting overall 5 per cent yield, the fund can generate 6 or 7 per cent a year by taking in premium from over-the-counter options - puts and calls - against its portfolio. It thus loses much of any capital growth, but buys other options to protect itself against general market falls.

This is an ingenious arrangement, but it looks more like a trading operation than an investment portfolio. What are the risks? Even if they are well designed, derivatives trading programmes can fall foul of poor liquidity or counterparty risk. I asked Morgan Grenfell the source of the OTC options, and was told that the fund managers had signed a confidentiality agreement. So much for transparency.

In fact there need be no secret. The options are being created by the equity derivatives unit of Swiss Bank Corporation in London; effectively, this bank's wholesale market services are being turned into retail products by Hypo F & C, Morgan Grenfell and others.

An earlier range of retail products focused on guarantees of various kinds - in essence, the FT-SE 100 Index would be at least matched at some date in the future - but falling interest rates have made it more difficult to design attractive guaranteed products, which have relied on historically. Apparently it would have sailed through the 1987 crash quite happily. But the future will always spring more surprises than the past.

The doomsters are easy enough to find. The Bundesbank last week reflected gloomily on the possibility of a chain reaction leading to disaster if problems in derivatives were to lead to a collapse of liquidity in the cash markets. Earlier in the month Mr Henry Kaufman, the Wall Street analyst, warned about poor standards of regulation and unwarranted complacency about the real level of risks in derivatives. European central banks, he pointed out, have been generating vast profits for private sector participants in the derivatives markets through their clumsy mistakes in the foreign exchange markets, especially in 1992, but just suppose it had been the other way around?

In practical terms, investors in innovative retail products are scarcely exposed to apocalyptic risks, merely to the possibility that the income may turn out to be less than expected, or the danger that allegedly "unusual" conditions may cause a few points of loss of capital.

The derivative markets are now vast, but are still quite immature. Their complexity invalidates the old adage that you should only put your money in (or report on) investments you understand. Moreover the proprietary nature of the product designs based upon OTC contracts means the propositions are becoming increasingly opaque, even to experts.

We just hope that the rocket scientists will not reinvent the nuclear bomb by accident.



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RJR Nabisco income falls 58%

By Karen Zagor in New York

RJR NABISCO, manufacturer of Winston and Camel cigarettes, yesterday unveiled a 58 per cent drop in third-quarter net income.

The sharp decline reflects the impact of price wars with its main rival Philip Morris, but Wall Street was prepared for the downturn and shares held steady at \$54.

Net income in the quarter was \$70m, including a one-time gain of \$2m on sales which fell 11 per cent to \$3.5bn. A year earlier, RJR earned \$178m, including one-time charges of \$70m, on sales of \$4bn.

RJR's earnings per share tumbled to 4 cents from 13 cents, while operating income

decreased 44 per cent to \$431m from \$783m.

The company warned it would take significant charges in the fourth quarter to cover cost-cutting and other performance improvement measures.

RJR had warned of a 43 per cent shortfall in operating income from US tobacco operations for the whole of 1993 and the third-quarter results were exactly as most analysts had predicted.

Mr Charles Harper, chairman and chief executive, said the company's earnings showed the direct impact of lower tobacco prices in the US.

Stripping out domestic

tobacco results, RJR's third-quarter operating income from continuing businesses rose 15 per cent.

Overall, the group's tobacco business posted sales of \$1.87bn, down 20 per cent from the \$2.33bn reported in the same period of last year.

Operating income before amortisation of trademarks and goodwill dropped 40 per cent to \$382m from \$712m.

Internationally, operating income before amortisation of trademarks and goodwill rose 14 per cent on sales which edged 2 per cent higher.

Gains overseas were more than offset by a 64 per cent plunge in domestic operating income before amortisation of trademarks and goodwill.

US sales fell 29 per cent. The company blamed a less favourable product mix and lower overall volume for the erosion, in addition to discounted prices.

The company's food group saw sales rise 6 per cent to \$1.75bn and operating income for continuing businesses before amortisation of trademarks and goodwill advance 10 per cent to \$220m.

For the first nine months, RJR earned \$315m, or 23 cents a share, against \$354m, or 20 cents a year earlier. There were one-time charges of \$110m in the 1993 period and charges of \$36m in the same period of 1992.

Sales eased to \$11.1bn from \$11.53bn.

Paramount unveils new joint-venture TV network

By Martin Dickson in New York

PARAMOUNT Communications, the US entertainment group which is the subject of a bidding war, yesterday announced a joint venture with television group Chris-Craft Industries to launch a new US broadcast TV network.

The network, due to come into operation at the start of 1994, would initially present four hours of original programming over two nights a week. Paramount yesterday described the venture as a "fifth national network", though its original programming would initially fall far short of the existing four - ABC, CBS, NBC and Fox.

The Paramount and Chris-Craft stations which will comprise the core affiliates of the new network reach some 27 per cent of US television households.

The deal does not impinge directly on the takeover battle between Viacom, the cable company making a friendly \$8.5bn bid for Paramount, and QVC Network, which has launched a hostile offer worth the same amount.

However, Viacom yesterday welcomed the Chris-Craft deal, which it described as "one more example of the limitless potential that makes the future for Paramount-Viacom so exciting."

The new network, would be jointly owned and operated by Paramount and Chris-Craft, which holds 70 per cent of BHC Communications, owner of a group of eight TV stations.

Price rises help reinforce recovery at US Steel

By Richard Waters in New York

THE SUCCESS of US steel makers in pushing through price rises this year, together with stronger demand for their products, helped reinforce the recovery at US Steel, the country's largest producer, in the third quarter.

The company reported net income of \$36m, or 44 cents a share, compared with a loss of \$28m, or 48 cents, a year ago.

Continuing turnaround at US Steel helped parent company USX report after-tax profits for the period of \$66m, compared with a \$4m loss in the same period in 1992.

Raw steel production rose by 8 per cent to 2.8m tons. At this level, US Steel said it was operating at 85 per cent of capacity, compared with 88 per cent a year before.

With higher prices, sales rose by 12 per cent year-on-year to \$1.4bn.

The figures were flattered by the change in the US corporate tax rate, which led to a one-off addition to income of \$20m.

This was largely offset by a further \$14m charge for interest expense relating to a litigation judgment made earlier this year and against which the company is appealing.

USX also benefited from a 25 per cent rise in net income at Marathon Group, its oil subsidiary, to \$30m or 10 cents a share. The figures were held back by one-off charges, in part to reflect the lower market value of the company's inventory.

Lower oil prices and higher margins in refining led to a sharp increase in operating income in the company's downstream operations from \$24m to \$146m.

Exploration and production activities recorded an operating loss of \$8m, compared with a profit of \$43m as a result of \$4 fall in oil prices over the year.

Improvement at Canadian textiles group

By Robert Gibbons in Montreal

DOMINION Textile, the Canadian-based integrated textile group, improved profits in the first quarter ended September 30.

The group is also planning to expand globally in denim, interlinings and non-wovens, its three largest business sectors.

Domtex is completing a US\$150m 10-year note issue which, together with a US\$200m standby credit, will bring its debt-equity ratio down to near its target of 40:60. Later it plans a US equity issue and a quotation on a US stock exchange.

First-quarter net profit was \$4.5m (US\$3.4m), or 8 cents a share, up from \$3.5m, or 6 cents, on sales of \$490m, compared with \$225m.

Industrial fabrics did well while interlinings declined slightly. European industrial non-wovens performed better and the Klopman workwear unit posted an 11 per cent sales gain, although margins tightened.

Strong competition pushes Northern Telecom into loss

By Bernard Simon in Toronto

WEAK DEMAND and fierce competition in the North American telephone switch market contributed to a third-quarter loss at Northern Telecom, the Canadian telecommunications equipment maker.

The Toronto-based company continued to predict, however, that it would return to the black in the fourth quarter.

Earlier this year Northern announced a reorganisation including the loss of about 5,000 jobs. The third-quarter loss of \$3.7m, or 13 cents a

share, compared with earnings of \$116.2m, or 46 cents a share, a year earlier. Revenues slipped to \$1.88bn from \$2.02bn.

Revenues from central-office switches, cable and transmission products all declined. They were partly offset by "good growth" in multimedia communications systems.

Order input for the quarter of \$2.34bn was 3 per cent higher, while orders on hand rose by almost a third to \$4.41bn on September 30.

Northern broke a tradition yesterday by not making its chief executive available to comment on the results. However, Mr Jean Monty said in a press release that the company was encouraged by growth in its international business and by strong revenue gains from its fledgling wireless products.

Costs associated with the restructuring, which were taken in the second quarter, drove the company to a \$984.5m loss in the first nine months of 1993, compared with earnings of \$293.3m last year.

The third-quarter results were in line with analysts' expectations, and Northern's share price rose 62 cents on the Toronto stock exchange yesterday to C\$35.50 at midday.

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Chevron operating profit up

By Richard Waters

THE OIL price fall helped boost operating profits at Chevron in the third quarter, as higher margins on refined products more than offset the impact of lower prices on exploration and production activities.

One-off charges of \$145m - mainly related to the rise in the US corporate tax rate - led to a fall in net income to \$420m, or \$1.29 a share, from \$467m, or \$1.37 a share the year before.

Before special items, net income in both periods jumped to \$568m from \$410m.

US refining and marketing income climbed to \$164m, from

\$68m, while earnings overseas were up from \$19m to \$50m.

Lower oil prices accounted for most of the improvement. Mr Ken Derr, chairman and chief operating officer, said the company had cut operating expenses by 14 per cent over the past two years, equivalent to a saving of \$1 a barrel.

US exploration and production income fell to \$126m from \$251m as higher natural gas prices failed to make up for a \$3.94 fall in the price realised for a barrel of oil.

Unocal, the Los Angeles-based energy group, lifted its third-quarter earnings to \$70m or 26 cents a share from \$11m or 1 cent a year ago, boosted by improved West Coast refining

and marketing operations. Refiner reports.

Higher domestic natural gas prices, lower worldwide exploration expense and lower interest expense contributed to the improved results.

The quarter included a \$14m charge on the effect of the higher federal tax rate on deferred taxes. The 1993 quarter included a \$32m restructuring charge. Third-quarter operating earnings from petroleum exploration and production fell to \$101m from \$121m in 1992, reflecting lower worldwide crude oil prices and production. Higher domestic natural gas prices and production and lower exploration expenses partially offset the drop.

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P&G posts earnings of \$670m

By Martin Dickson

PROCTER & Gamble, the US consumer products company, yesterday reported a 10 per cent increase in first-quarter net earnings, with volume growth and cost cutting outweighing lower prices and unfavourable exchange rate movements.

The group reported net earnings of \$670m, or 86 cents a share, on net sales of \$7.56bn, compared with earnings of \$610m, or 86 cents, on sales of \$7.88bn in the same period of last year, excluding special

1992 items. The figures were broadly in line with Wall Street expectations.

Mr Edwin Artzt, chairman, said that "despite challenging market conditions in many parts of the world, the quarter produced broadly-based volume growth by sector and geography, with good balance between established and new brands."

"Efforts to improve value for consumers are receiving good response, and several new brand initiatives have been productive."

The company said important

factors contributing to the rise in earnings were strong unit volume growth in the US and international markets, lower costs that more than offset the impact of lower pricing, and lower interest costs.

Unit volume was up 8 per cent, excluding the company's discontinued juice and pulp operations.

On a constant exchange rate basis, net earnings would have been up 17 per cent on a year ago. Excluding exchange rate changes and divestitures, sales revenues would have been up 5 per cent.

AlliedSignal advances 24%

By Martin Dickson

ALLIEDSIGNAL, the US high-technology group, yesterday reported a 24 per cent rise in third-quarter net income, helped by productivity improvements.

The company posted net income of \$168m, or \$1.19 a share, compared with \$135m, or 95 cents, in the same period of last year.

Net sales fell 4 per cent to \$2.8bn and were flat when foreign exchange movements are excluded.

The operating margin rose to 8.2 per cent from 6.9 per cent, and the return on equity was 27.8 per cent, against 25.5 per cent.

US health groups sign supply deal

BAKTER International, the US healthcare group, and American Healthcare Systems have signed a five-year agreement expected to be worth more than \$4bn in Baxter supplies and services for American Healthcare member hospitals, AP-DJ reports.

The agreement renews a five-and-a-half-year agreement signed in August 1988 and represents an increase of about 80 per cent over the \$2.5bn purchases of Baxter products made by American Healthcare Systems hospitals during the previous five years.

American Healthcare, based in San Diego, California, represents more than 1,000 healthcare facilities in 47 states. The new deal covers a wide range of products, including Baxter's

entire range of medical and surgical supplies, cardiovascular devices, and diagnostic instruments and reagents.

Baxter provides intravenous fluids and related products under a separate five-year agreement signed in 1991. That is expected to result in purchases of up to \$500m in Baxter intravenous products over the course of the contract.

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Subscription Price: FIM 10

Issue Manager: Union Bank of Finland Ltd
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Directed Share Issue of
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Issue Price: FIM 15.70

Issue Manager: Union Bank of Finland Ltd
Adviser: Mandatum & Co Oy

International Offering of
11,676,350 A-Shares
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July 1993

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Australia and New Zealand
Banking Group Limited

(Incorporated with limited liability in the State of Victoria, Australia)

U.S. \$250,000,000

Subordinated Floating Rate Notes due 2000
of which U.S. \$140,000,000 is being issued
as the Initial Tranche and U.S. \$70,000,000
is being issued as the Second Tranche

Notice is hereby given that for the Interest Period 26th October, 1993 to 26th April, 1994 the Notes will carry a Rate of Interest of 3.875 per cent. per annum with an Amount of Interest of U.S. \$1,959.03 per U.S. \$100,000 Note. The relevant Interest Payment Date will be 26th April, 1994.

Bankers Trust
Company, London

Agent Bank

U.T.G.B. International
(Jersey) Limited
U.S. \$40,000,000
Floating Rate Guaranteed
Notes due 1996

For the Interest Period 26th October, 1993 to 26th April, 1994 the Notes will carry a Rate of Interest of 4.875 per cent. per annum, the Coupon Amount payable per U.S. \$1,000 Note will be U.S. \$123.33, and for the U.S. \$100,000 Note will be U.S. \$12,464.58, payable on 26th April, 1994.

Bankers Trust
Company, London Agent Bank

SARAKREEK PARTICIPATIONS N.V. ESTABLISHED IN CURAÇAO NETHERLANDS ANTILLES

NOTICE of the Annual General Meeting of Shareholders to be held on November 22, 1993.

Notice is hereby given that the Annual General Meeting of Shareholders of SARAKREEK PARTICIPATIONS N.V. shall be held on November 22, 1993 at 3.00 o'clock p.m. local time at the offices of the company at Plettenhage 15, Curaçao (N.A.) to approve the report of the Managing Director, the annual accounts of the company for the financial year ended on May 31, 1993 and to discharge the Management in conformity with the company's articles of incorporation.

The official agenda of the meeting may be inspected by all shareholders at the offices of the company and is available upon request.

Amro Trust Corporation N.V.
Managing Director

Dated: October 27, 1993

USD 100,000,000
KANSALLIS - PANKKI

Subordinated Floating
Rate Notes due July 1997

Interest Rate 3.625% p.a.

Interest Period October 26, 1993
January 26, 1994

Interest Amount due on
January 26, 1994 per

USD 10,000 USD 92.64
USD 250,000 USD 2,315.97

Bankers Trust
Company, London Agent Bank

Battle is joined for HK's dailies

JUST weeks after millionaire Mr Robert Kuok paid \$348m to Mr Rupert Murdoch for control of the South China Morning Post (the Post), Hong Kong's leading English language newspaper, its effective monopoly is to be challenged. Oriental Press, the most profitable Chinese language publisher in Hong Kong, is to launch a new English language newspaper, the first in more than a decade.

Mr Herman Hui, executive director of Oriental Press, said the group would be able to launch a newspaper by the end of December, but would not

Simon Davies
reports on a new
daily paper in Hong
Kong, planning to
challenge the
South China
Morning Post

proceed unless it was confident it could break even within "a few months". It has already poached a significant number of journalists from the Post and appointed an editor.

The launch is linked to the Post's change of ownership, which was seen as a political move. Mr Kuok is a major investor in China and an appointed adviser to Beijing on Hong Kong affairs; few believed he would not change the editorial policy.

By comparison, Oriental Press Group's main newspaper, the *Oriental Daily*, is firmly pro-Hong Kong's governor, Chris Patten. Its move has been encouraged by some government officials as a means of encouraging a free press in Hong Kong.

The group's image as a saviour of free speech is somewhat tainted, however, by the fact that its founder, Ma Sik-chun, and his brother "White Powder" Ma Sik-yu, fled the colony for Taiwan in 1977 and 1978, to escape heroin trafficking charges. The Ma family owns 70 per cent of Oriental Press.

Competition is seen as positive for readers, advertisers and the freedom of the Hong Kong press, but it could be costly for the shareholders of both companies.

Stakes are high. South China Morning Post (Holdings) made net profit of HK\$494m (US\$63.3m) in the year to June 1993, almost exclusively from the Post. The daily paper has a readership of only 288,000, but advertising rates reflect the spending power of its top-flight readership.

Oriental Press Group made HK\$430m in the year to March 1993, and boasts 1.63m readers - one-third of the entire Hong Kong newspaper market. Despite supporting Mr Patten's democratic reform programme, the paper is generally more interested in gossip on the local film industry's starlets.

Most likely victim of the battle is the existing "second paper", the *Wing Kong Sun*. *Kard* has failed to break the Post's arm-lock on advertising - despite under-cutting prices - and it seems unlikely the small market for English language newspapers can bear three products.

However, it is the Post's readership and advertisers that Oriental is targeting. The Post has promised a round of pay rises to counter further staff defections and the new management is keen to counter suggestions that a change of tack towards Beijing may antagonise existing readers. Mr Kuok said that the editorial policy would not change and the Post would remain "a Hong Kong newspaper dedicated to Hong Kong's best interests".

Oriental Press would not reveal how expensive its gamble will be. It has the spare printing and office capacity to operate another newspaper at little extra cost. It also has a net cash position of around HK\$500m, more than enough to fund the salaries and the enormous launch campaign.

But they are facing a formidable adversary. In the mid-1970s there were four English language newspapers, but they did little to damage the Post's earnings stream. It has emerged as one of the world's most profitable newspapers.

Mr Kuok can afford to be relatively sanguine. His enormous influence in the local business community will ensure continued patronage for his new project, whatever the support for the new competitor.

In addition, after 1997 he could expect to be recompensed by the government for any adverse favouritism shown in Hong Kong's dying days as a British colony.

INTERNATIONAL COMPANIES AND FINANCE

JR East stock soars 57.8% on debut

By Emilio Terazono
in Tokyo

SHARES in East Japan Railway (JR East) soared 57.8 per cent above their initial offer price when half the company's shares were floated on the Tokyo stock exchange yesterday.

The stock was finally traded at ¥600,000 (\$6,535) a share, after remaining bid-only all day.

The listing of JR East is the biggest offering of a semi-private company since the \$160m float of Nippon Tele-

graph and Telephone in 1986.

It is a crucial test of the market's strength ahead of flotations for other government-held companies, including Japan Tobacco and the remaining six regional railways.

Brokers hope that the success of JR East will help restore confidence among retail investors, who have been discouraged by last year's sharp drop in the price of NTT shares.

Traders said that the rush of buy orders clogged the Tokyo stock exchange's computers, disrupting the processing of

orders. Two million of the 4m JR East shares held by state-owned Japan National Railway Settlement were listed yesterday.

TSE officials said that JNR Settlement had to inject more than 500,000 of its remaining shares into the market to deal with the lack of sellers amid a torrent of buyers.

Mr Masataka Matsuda, president of JR East, rejected suggestions that the initial traded price was too high.

He said that he believed the market price had been formed in a fair manner,

based on proper information. Mr Matsuda said that JR East would maintain an annual dividend of ¥5,000.

However, he raised the possibility of a dividend increase, adding that he would need to compare the company's payout ratio and dividend rate with those of other listed companies.

In spite of the popularity of JR East, the overall Tokyo stock market declined as investors sold shares to raise funds in order to buy the JR issue, and the Nikkei index fell 1.1 per cent to 20,023.60.

General Motors to take \$950m charge

By Martin Dickson
in New York

GENERAL Motors is to take a \$950m pre-tax charge against third-quarter earnings to cover additional costs from its programme to close 21 redundant manufacturing plants in North America.

The news came shortly after GM reached a new three-year labour agreement with the United Auto Workers union which will sharply push up the company's pension costs, while allowing it more freedom to relocate laid-off workers to new plants.

The company, which is to

report third-quarter figures tomorrow, said the charge resulted mainly from greater productivity gains than had been expected when it first made a provision for the plant closing programme.

This meant fewer jobs would be available within the group for workers from plants that GM was closing, which in turn would push up its job security costs. Under a long-standing job security programme, GM continues paying its workers even after they have been laid off.

However, the company said that even with the charge it believed it could attain its 1993

financial goal for its North American automotive operations - to break even before interest, taxes and non-cash healthcare expenses.

Standard & Poor's, the credit information agency, said it had revised its rating outlook for GM to negative from stable because of the new labour pact.

It said the reported provisions of the agreement would not bolster the company's cost-cutting efforts in North America, as had been anticipated.

GM's market share performance had been disappointing in recent quarters, S&P said. These factors heightened

uncertainty about the company's ability to achieve meaningful profits in North America, it added.

GM has ended a 28-month search for a strategic partner for its locomotive group. It said that it could not find potential partners able to offer the kind of investment needed to enhance the unit, Reuters adds.

The locomotive group, which includes the electro-motive and diesel divisions, is based in Ontario, Canada, and manufactures locomotives and defence-related products.

GM first announced that it was looking for a partner for the unit in June 1991.

Amexco recovery continues

By Richard Waters
in New York

THE TURNROUND at American Express engineered by Mr Harvey Golub, chairman, continued in the third quarter as the financial services group's core travel-related services business maintained the earnings momentum of the previous three months.

The group also benefited from Wall Street's strong performance. Its Lehman Brothers investment banking unit recorded a rise in net income, to \$114m from \$85m the previous quarter, driven by a 77 per cent increase in its income from making markets and other principal transactions.

Net income at American Express for the three months to the end of September reached \$430m, or 83 cents a

share, compared with a loss of \$204.7m (after a one-off restructuring charge of \$482m) a year ago.

The figures were lifted by a net benefit of \$28m from the rise in the US corporation tax rate, which led to a one-off adjustment to deferred taxes. It said this benefit was offset by costs from the early repayment of some debt.

Net income in travel-related services rose to \$266m, from \$234m the previous quarter and a loss of \$187m the year before.

Gross revenues fell 2 per cent over the year to \$2.16bn, due to a fall in the discounts charged to merchants for accepting American Express cards and a decline in card fees.

However, provisions for credit losses fell by nearly 30

per cent, to \$375m. The number of cards in force continued to fall, to 34.2m from 35.1m a year before, though the amount of business billed to cardholders during the period, at \$30.5bn, was up 4 per cent.

Gross revenues (net of interest costs) at Lehman Brothers rose by a third, to \$885m, as income from principal trading jumped sharply to \$421m.

Investment banking revenues advanced by 34 per cent to \$186m, while commissions grew by a fifth to \$128m.

Other businesses continued to show improvements in operating performance. Net income at IDS, the investment management and advisory arm, rose to \$96m from \$80m on higher fee income, while after-tax profits at American Express Bank climbed to \$27m from a loss of \$30m the year before.

US bank advances to \$48.5m

MARINE Midland Banks, the US bank which is an indirectly-held, wholly-owned subsidiary of London-based HSBC Holdings, yesterday reported an increase in net income in the third quarter, agencies report.

Income for the period advanced to US\$48.5m and to \$127.5m for the year to date. This compares with net income of \$29.5m and \$73.5m for the corresponding periods in 1992.

The bank lifted net interest income to \$189.2m for the quarter, from \$173.7m last time, mainly because of favourable margins and increased credit card assets.

Other operating income for the quarter declined to \$50.5m, compared with \$52m for the same period in 1992.

"This decline is primarily attributable to a one-time gain from the sale of mortgage-backed securities in the third quarter of 1992, and decreasing amounts of fee income from securitised credit card assets and mortgage servicing," the bank said.

Marine's tier one risk-weighted asset ratio increased to 9.85 per cent for the third quarter, compared with 9.29 per cent for the third quarter of 1992.

The bank's total risk-based capital ratio was 16.76 per cent in the third quarter, compared with 17.09 per cent for the third quarter of 1992.

NOTICE OF INTEREST RATE

To the Holders of
BankAmerica Corporation
Floating Rate
Subordinated Capital Notes
Due 1999
CUSIP 066658 BBS

Pursuant to the provision of the Notes issued under the Indenture of BankAmerica Corporation dated as of June 15, 1994 as amended by the Second Supplemental Indenture dated as of September 30, 1997, the rate for the period from October 26, 1993 up to and including January 26, 1994 is 4.625%. The amount of interest payable on January 26, 1994 is U.S. \$1,181.94 for each \$100,000 principal amount of the Notes.

Chemical Bank, as
Calculation Agent
October 22, 1993

US-Japanese diesel engine deal revealed

By Andrew Baxter

CUMMINS ENGINE of the US and Komatsu, the biggest Japanese construction equipment group, yesterday announced details of their collaboration plans in diesel engines. The deal was originally revealed in February.

The companies will be forming two joint ventures, one of which will be named Komatsu Cummins Engine and located at Komatsu's Oyama plant in Japan. It will produce Cummins' small B-series, used by Komatsu in construction equipment and sold by Cummins in Japan and Asia. This will allow the US company to increase its presence in the growing Asia-Pacific region.

The second venture, Cummins Komatsu Engine, will be sited in Cummins' plant at Seymour, Indiana, and produce Komatsu's large 30-litre engines for Cummins to sell worldwide.

Production at both ventures will begin by 1996, with annual output expected to reach 40,000 engines at Oyama and 2,000 engines at Seymour by the end of the decade.

The link-up between the two companies is one of the most important in the world diesel engine industry. It allows both companies to extend their product ranges and cut costs by sharing R&D and eliminating areas of duplication.

Ovens closure costs Inland Steel \$20m

INLAND Steel of the US is to take a pre-tax charge of about \$20m in the fourth quarter due to the closure of four coking batteries at the No 2 Coke Plant at the Indiana Harbour Works, Reuters reports.

The batteries' coke ovens, used to bake coal into fuel for ironmaking blast furnaces, will be shut in December. About 461 hourly workers and 38 salaried employees will lose their jobs, and the company said they would be eligible for support services, certain benefits and retirement options.

The four batteries are Inland's only remaining coking facilities. All the coke battery shutdowns are due to the same combination of circumstances, including the inability to meet existing and future environmental regulations and the decline of the oven performance.

Phillips-Van Heusen, the US clothing and shoes group, will incur a one-time charge, net of tax, of \$12.2m, or 45 cents per share, for its fourth quarter ending January 31, as part of its plan to redeem senior debt, Reuters reports.

The group said it planned to issue \$100m of debentures, due 2003, and use the proceeds to redeem the company's outstanding 11.3 per cent Senior Note, due 2002. The note was issued to the Prudential Insurance Company of America.

With cash from working capital, the proceeds will also go towards redeeming outstanding 9.83 per cent Senior notes due 1997, issued to Teachers Insurance and Annuity Association of America, the company said.

Goldman, Sachs and Company and BT Securities Corporation will be the underwriters.

Computer groups link

NATIONAL Semiconductor of the US has entered a technical and marketing partnership with Novell, the US software group, Reuters reports.

National, a leading computer chip maker, said that it was going into the end-user networking market with a set of products which had just been launched.

Earlier, Microsoft and Cisco

Systems of the US announced a similar alliance to expand networking options for end-users.

Mr Ray Noorda, Novell's chief executive, said that Novell and National would provide customers with network solutions that set new standards for technical innovation, compatibility, ease of use, and price.

CONTRACTS & TENDERS

ALBANIA MINISTRY OF FINANCE AND ECONOMY

CASH REGISTERS INVITATION FOR BIDS

The Ministry of Finance and Economy has received a fund from the Albanian Government and the Cabinet of the Minister of Finance and Economy invites now sealed bids from eligible bidders for supplying Cash Registers as follows:

The total scope of the supply will be 15,000 units, to be delivered in several instalments, the first of which will be 4,000 units.

Cost of bidding documents: USD 200.- Bid submission deadline and public bid opening date: 31/12/1993, 12.00 Midday.

Bidding documents are now available at the Cabinet of the Ministry of Finance and Economy, and can be obtained from the same on submission of a written application and upon payment of the mentioned cost refundable fee in cash at the same Cabinet or into account No. 10/1000 maintained by the Ministry of Finance and Economy at the National Commercial Bank of Albania, Tirana, Albania.

Further information can be obtained from:
THE CABINET OF THE MINISTER
MINISTRY OF FINANCE AND ECONOMY

CHIEF OF CABINET
Mr. Nino CEPRIKU
Fax: +355 42 43422

OBITUARY



It is with deepest regret that the directors and staff of Tradition (UK) Ltd announce the death of John Phipps who passed away on 4th October. John was Managing Director of the company and will be sorely missed by all those who worked with him. He was a known in both the banking and money broking fraternities. Our deepest sympathies are extended to John's wife Hilary, their daughter Louise and their families at this most difficult time and a memorial service in the City will be held as a mark of respect.

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Matsushita and Sharp down sharply at midterm

By Michio Nakamoto in Tokyo

MATSUSHITA Electric Industrial and Sharp, the Japanese consumer electronics companies both report sharp falls in first-half profits.

Matsushita confirmed expectations of a substantial deterioration in its first-half business by reporting a 43 per cent fall in pre-tax profits to ¥28.7bn (¥28.7bn) from ¥50.2bn.

The company blamed the continuing weakness of consumer demand, and slow recovery in its other main markets for the poor parent company results. Sales for the half year were 6 per cent down to ¥2.147bn.

Matsushita was particularly hard hit by an unusually cool summer, which not only depressed demand for air conditioners but also dampened

consumption overall. Meanwhile, the yen's appreciation against major currencies including the US dollar, D-Mark and Asian currencies resulted in a first-half loss of ¥9bn.

Domestic sales were down 7 per cent while exports suffered a 5 per cent decline. Of Matsushita's separate product categories, sales of video equipment fell 11 per cent and audio products 6 per cent. Home appliances, including air conditioners, registered the largest fall among product groups of 17 per cent.

On the other hand, sales of rice cookers which use induction heating and combined TV/VCR units were buoyant.

Matsushita, which is looking for growing second-half demand for its thin TVs and wide-screen TVs, is forecasting full-year profits of ¥63bn, down

35 per cent, on sales of ¥4,950bn, a 4 per cent fall from the previous year.

Sharp, meanwhile reported a 28 per cent fall in first half pre-tax profits for many of the same reasons that affected Matsushita. Pre-tax profits came to ¥20.2bn, a decline of 23 per cent on sales of ¥75.2bn, down 1.4 per cent from the previous year.

The company, which has been building up expertise in liquid crystal displays and flash memories, saw its exports rise 1.5 per cent during the period.

Sharp is forecasting stable sales for the full year at ¥1,150bn and pre-tax profits of ¥41bn, down 6 per cent. The company does not expect the Japanese economy to recover easily due to an expected increase in unemployment and continuing yen strength.

First-half profits at Fanuc plunge 28%

By Emilio Teraszono in Tokyo

SLACK sales of industrial robots to the motor industry were blamed for a plunge in half-year profits at Fanuc, the world's largest machine tool manufacturing equipment maker.

Unconsolidated pre-tax profits for the first six months to September fell 28.3 per cent to ¥11.6bn (¥10.8bn) on a 9.7 per cent decline in sales to ¥94.5bn.

First-half profits fell 29.5 per cent to ¥10.5bn.

Sales at the robot division tumbled by 23 per cent to ¥14.6bn. Industrial robots for the auto industry accounted for 50 per cent of total robot sales, down from the previous 70 per cent.

Factory automation equipment declined 12.7 per cent to ¥33.9bn. However, exports to Taiwan and South Korea were back, pushing Fanuc's export ratio above 40 per cent for the first time.

During the second half of the year, the company will focus on sales of plastic injection molding machines, the only item to produce firm profits.

Plant and equipment investments for the second half will fall by 50 per cent from the previous year, the company said.

For the full year to March, DEB expects pre-tax profits to plunge 62.1 per cent to ¥40bn, a 15.3 per cent fall in ordinary income to ¥2,500bn. After-tax profits are projected to decline 36.6 per cent to ¥32bn.

Indian inquiry puts reforms to test

Stefan Wagstyl on the country's biggest corporate takeover plan

INDIA'S Monopolies and Restrictive Trade Practices Commission yesterday started a public examination of the country's biggest corporate takeover plan in a hearing which is being seen as an important test of the effectiveness of the government's economic reforms.

The inquiry concerns proposals by Hindustan Lever, the Indian subsidiary of Unilever, to acquire Tata Oil Mills Company (Tomco), an affiliate of Tata, India's largest industrial group, and a large producer of soaps and detergents.

Before Mr P.V. Narasimha Rao, the prime minister, launched the liberalisation programme in 1991, the monopolies commission was a powerful instrument of the licence raj - the panoply of economic controls developed in post-independence India. The inquiry into the Hindustan Lever-Tomco deal is the commission's first major probe since its powers were curbed by changes to the Monopolies and Restrictive Trade Practices Act. The handling of the case will be a significant indication of how reforms are being implemented.

Hindustan Lever's takeover of Tomco was announced in March and approved in June by shareholders of both companies but it has still to complete its passage through legal and official reviews. Under Indian law, companies wishing to make acquisitions must register them in court. Would-be opponents are given the opportunity to file protests.

Hindustan Lever's plans have been opposed by one of its in-house trade unions, the Maharashtra Girdhari Kamgar Union (which represents about 20 per cent of the employees), and by the Maharashtra Small-Scale Soap Manufacturers Association, a small-scale

employers' organisation. The trade union is worried about the potential impact of the merger on jobs and the small-scale manufacturers association is concerned small-scale producers might be squeezed out of the market.

Both organisations have filed protests against the merger in the Bombay High Court and the Monopolies and Restrictive Trade Practices Commission (MRTPC).

In its case to the MRTPC, the trade union concedes that amendments to the anti-monopolies act have ended blanket restrictions on large groups carrying out takeovers or making other investments which would substantially increase market share. However, the union argues that the proposed acquisition of Tomco by Hindustan Lever would infringe rules still in force on

"restrictive trade practices". It claims the acquisition would create a group with nearly 80 per cent of the national market in toilet soaps and 90 per cent in detergent. This would distort competition with "disastrous" results for consumers and cuts to employment in the industry.

Hindustan Lever says the union's figures are exaggerated, claiming that its market share in soaps and detergents would rise from 25 per cent to 30 per cent after the merger. It argues that the deal will "benefit all".

Hindustan Lever hopes that the commission will finish its deliberations soon, before December 15, when the Bombay High Court is due to consider the merger. Hindustan Lever officials believe that a positive verdict from the commission will help the court to deliver a favourable verdict.

Dai-Ichi Kangyo cuts forecast

By Emilio Teraszono

DAI-ICHI Kangyo Bank, a leading Japanese bank, halved its interim pre-tax estimates yesterday due to higher-than-expected write-offs for bad loans and a fall in income due to lower profit margins.

Other banks, which are due to announce their half-year results at the end of next month, are expected to follow suit, as a rising number of corporate borrowers are becoming unable to pay back loan interests amid the prolonged economic slump. This is forcing the banks to

write off the bad loans.

Combined bad loans at 21 leading banks stood at ¥12,770bn at the end of last March, and industry analysts expect the figure for end-September to have risen to around ¥14,000bn.

At the same time, revenues at the banks have been squeezed by a slump in lending. For the first six months to September, the outstanding balance of loans at 11 leading commercial banks fell by 0.6 per cent to ¥222,300bn, its first fall on record.

DAI-ICHI's pre-tax profit for the first half to September

from its original forecast, to total ¥20bn (¥18bn), down 58.8 per cent from the year-ago figure.

Ordinary income for the first six months is expected to fall 17.3 per cent to ¥1,390bn, instead of ¥1,600bn. The bank's after-tax profits are expected to fall 44.3 per cent to ¥16bn instead of the earlier forecasted ¥24bn.

For the full year to March, DEB expects pre-tax profits to plunge 62.1 per cent to ¥40bn, a 15.3 per cent fall in ordinary income to ¥2,500bn. After-tax profits are projected to decline 36.6 per cent to ¥32bn.

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SA apparel group climbs 22%

By Philip Gawth in Johannesburg

EDGARS, the clothing, footwear and textiles group in the South African Breweries stable, overcame a difficult operating environment to increase attributable profit by 22 per cent to R100.2m (¥23.5m) in the six months to September, compared with R82.4m a year ago.

With the market growing during this period at an estimated 9 per cent, Edgars gained market share with turnover growing at 18 per cent to reach R1.65bn, compared with R1.41bn last time.

Selling prices, however, were deliberately reduced to compensate customers partially for a 40 per cent increase in the rate of value added tax - to 14 per cent from 10 per cent.

As a result, operating profit rose by only 5 per cent to R204.2m, from R194.4m a year ago. Lower finance charges and a drop in the effective tax rate helped boost attributable earnings.

The dividend was increased by 18 per cent to 46 cents per share, from 38 cents, on a 20 per cent increase in earnings per share to 196 cents, from 162 cents.

Mr George Seaton, chief executive, said assuming that there was no major deterioration in the socio-political environment, sales and profit growth for the full year should match the first half.

A divisional breakdown of earnings shows that Edgars contributed R86.1m, compared with R68.6m last time, and Sales House R22.9m, compared with R18.1m. Jet made a R3.2m loss, against one of R4.5m.

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NEWS DIGEST

Upjohn sells Florida unit

UPJOHN, the US pharmaceutical company, has signed a letter of intent with Terra Industries for Terra to purchase the assets and business of Upjohn Florida, an Upjohn subsidiary, for undisclosed terms. Reuter reports Upjohn said the proposed transaction is for the purchase of Asgrow Florida only and

does not include the agronomic or vegetable seed portions of Asgrow Seed Company. Asgrow Florida distributes agricultural materials including chemicals, seeds and specialty products with 12 stores in Florida and one in Georgia.

S A Brewing plans to change its name

S.A. BREWING Holdings, the Australian brewer, it planned to rename the company Southcorp Holdings and to introduce

a new logo, Reuter reports from Adelaide.

The company said the proposed new name reflected its origins and its diversification and expansion in Australia and overseas. It began in brewing and hotel ownership but has since become a wine producer and a manufacturer of water heaters, appliances and packaging. It sold its brewing and hotel assets in August.

S.A. Brewing said it would seek shareholder approval for the name change at its annual meeting on November 26.

Nippon Colombia cuts jobs after loss

NIPPON Colombia, the loss-making audio and video equipment maker, is to cut jobs by about 10 per cent from the current 1,860 workforce by March next year, a company spokesman said, Reuter reports from Tokyo.

Nippon Colombia also revealed yesterday a parent company first-half loss of ¥266m, compared with a ¥1,590m loss a year earlier.

Malbak registers 14% increase

By Philip Gawth

MALBAK, the industrial conglomerate in the Gencor group, overcame difficult trading conditions to record a 14 per cent increase in earnings to R374m (¥89.3m) in the year to August, compared with R338m a year ago.

Turnover rose by 10 per cent to R1.1bn, and although gross margins were under considerable pressure, cost reductions

and productivity improvements helped offset these conditions and operating income rose by 7 per cent to R50m.

Mr Grant Thomas, chairman, said the results were "very pleasing" seen against the difficult operating environment.

He said the group was forecasting a modest increase in earnings for 1994, but said predictions were extremely difficult given the huge changes

which lay ahead, including South Africa's first multiracial elections.

Reflecting his cautious outlook - Mr Thomas said it was unlikely that there would be any return to "sustained economic growth" in the coming year - the dividend was increased by 4 per cent to 35 cents per share.

Earnings rose by 8 per cent to 122 cents per share from 112 cents.

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LEGAL NOTICES

ICSR
ICSR REINSURANCE PRIVATE LIMITED
(Incorporated in the Republic of Singapore)

NOTICE OF CREDITORS' MEETINGS
IN THE HIGH COURT OF THE REPUBLIC OF SINGAPORE - ORIGINATING SUMMONS NO 1846 OF 1993

IN THE MATTER OF
ICSR REINSURANCE PRIVATE LIMITED

and

IN THE MATTER OF SECTION 210 OF THE SINGAPORE COMPANIES ACT

and

IN THE HIGH COURT OF JUSTICE OF ENGLAND AND WALES - NO 88942 OF 1993
CHANCERY DIVISION

IN THE MATTER OF
ICSR REINSURANCE PRIVATE LIMITED

and

IN THE MATTER OF SECTION 426 OF THE COMPANIES ACT OF ENGLAND AND WALES

NOTICE IS HEREBY GIVEN that by Order dated 17 and 19 October 1993 respectively made in the above matters in the High Court of the Republic of Singapore and the High Court of Justice of England and Wales (hereinafter called "the Courts"), the Courts have directed that the following separate meetings of the Scheme Creditors (as defined in the Scheme of Arrangement (hereinafter called "the Scheme") for the purpose of considering, and if thought fit, approving a Scheme of Arrangement ("the Scheme") proposed to be made between ICSR Reinsurance Private Limited (hereinafter called "the Company") and their Scheme Creditors (hereinafter mentioned jointly as the "Creditors") be held on the following dates:

1. The Scheme Creditors of the Singapore Insurance Fund of the Company.
2. The Scheme Creditors with Singaporean Perpetual Debts of the Company.
3. The Scheme Creditors of the Offshore Insurance Fund of the Company.

Each Scheme Creditor may vote in person at the relevant meeting or they may appoint another person, whether a Scheme Creditor or not, as their proxy to attend and vote in their place.

It is requested that the Creditors appointing proxies be lodged with the Secretary of the Company at its registered office situated at 127 Cecil Street, Raffles Hotel, Singapore 0695, not less than 7 days before the date appointed for the relevant meeting.

A copy of the said Scheme of Arrangement, the statement required to be furnished pursuant to Section 211 of the Singapore Companies Act and Section 426 of the English Companies Act, and the notice calling for this meeting, form of proxy and other documents can be obtained from the registered office of the Company and at the offices of its solicitors listed below. The Company has posted a set of these documents to all its known creditors at their last known address. If you are or may be a creditor of the Company and have not received the above mentioned documents by 4 November 1993 you are requested to inform the Secretary of the Company in writing at its registered office for the time being (55-56-57-58) of your name and address and a copy of the documents will be forwarded to you.

By the said Order, the Courts have appointed Philip John Singer as falling Mr. Christopher John Hagar or falling them, Lord Dai Hong to act as Chairmen at the said meetings and have directed the Chairmen to report the results thereof to the Courts.

The Scheme will be subject to the approval of the Courts.

Dated this 23 day of October 1993.

Charles Lam & Loh
8 Battery Road #17-01
Straits Trading Building
Singapore 0484

Charles Arnold Cooper
64 Battery Road
London EC4Y 3DD
United Kingdom

RMCA
RMCA REINSURANCE LIMITED
(Incorporated in the Republic of Singapore)

NOTICE OF CREDITORS' MEETINGS
IN THE HIGH COURT OF THE REPUBLIC OF SINGAPORE - ORIGINATING SUMMONS NO 1815 OF 1993

IN THE MATTER OF
RMCA REINSURANCE LIMITED

and

IN THE MATTER OF SECTION 210 OF THE SINGAPORE COMPANIES ACT

and

IN THE HIGH COURT OF JUSTICE OF ENGLAND AND WALES - NO 88943 OF 1993
CHANCERY DIVISION

IN THE MATTER OF
RMCA REINSURANCE LIMITED

and

IN THE MATTER OF SECTION 426 OF THE COMPANIES ACT OF ENGLAND AND WALES

NOTICE IS HEREBY GIVEN that by Order dated 17 and 19 October 1993 respectively made in the above matters in the High Court of the Republic of Singapore and the High Court of Justice of England and Wales (hereinafter called "the Courts"), the Courts have directed that the following separate meetings of the Scheme Creditors (as defined in the Scheme of Arrangement (hereinafter called "the Scheme") for the purpose of considering, and if thought fit, approving a Scheme of Arrangement ("the Scheme") proposed to be made between RMCA Reinsurance Limited (hereinafter called "the Company") and their Scheme Creditors (hereinafter mentioned jointly as the "Creditors") be held on the following dates:

1. The Scheme Creditors of the Singapore Insurance Fund of the Company.
2. The Scheme Creditors with Singaporean Perpetual Debts of the Company.
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Charles Lam & Loh
8 Battery Road #17-01
Straits Trading Building
Singapore 0484

Charles Arnold Cooper
64 Battery Road
London EC4Y 3DD
United Kingdom

NEW ISSUE

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OCTOBER 7, 1993

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HG Asia Securities
Nomura International
UBS Limited

S.G. Warburg Securities

United States Offering
U.S.\$30,000,000 Principal Amount of Bonds

CS First Boston

INTERNATIONAL CAPITAL MARKETS

European sector claws back losses in thin trading

By Corinne Middlemann in London and Patrick Harverson in New York

EUROPEAN bond markets clawed back some of Monday's losses but ended narrowly mixed in moderate turnover. Flows were thin as investors continued to digest last week's round of rate cuts, and with little fresh news expected this week, most markets are expected to continue consolidating.

UK GILTS ended slightly firmer as participants prepared for today's auction of 6 per cent gilt due 1999, next year's new five-year benchmark.

GOVERNMENT BONDS

Despite its £3.5bn record size, the auction is expected to go smoothly, supported by firm demand from overseas and domestic investors. Expectations of near-term easing have caused short to medium-term paper to outperform longer maturities in recent weeks and are expected to ensure strong demand for the new paper.

Analysts are calling for a bid-to-cover ratio of around 1.5 to 2 times and a tail the difference between the highest accepted yield and the average

accepted yield - of around three basis points. Late in the day the bonds were quoted at 49.5 on a when-issued basis, yielding 6.21 per cent.

GERMAN government bonds began the day on a firmer footing after overnight buying by Far-Eastern accounts, but early gains were eroded by profit-taking on disappointing overnight preliminary October inflation data and D-Mark weakness following last week's 4-point cut in key German rates.

The December bond contract opened at 100.04, rose as high as 100.24 and closed at 100.13, up 0.05 point on the day. While some see further downside at the long end of the yield curve, others expect it to remain well supported. "I'm pulling in my rear claws," said Mr Karl Haefliger, head of international futures and options at Deutsche Bank, who expects the technical uptrend to remain intact. "While we are in a consolidation phase, I feel there are bigger chances for a break to the upside than to the downside."

ALTHOUGH the French franc strengthened slightly against the D-Mark, French bonds edged lower on the day, pressured by the announce-

FT FIXED INTEREST INDICES

F5 FIVE YEAR INTEREST RATES												
	Oct 26	Oct 25	Oct 22	Oct 21	Oct 20	Oct 19	Oct 18	Oct 17	Oct 16	Oct 15	Oct 14	Oct 13
Short-term (90)	103.36	103.04	103.60	103.46	103.31	103.29	103.29	103.29	103.29	103.29	103.29	103.29
Fixed Indexed	124.04	124.04	124.04	124.04	124.04	124.04	124.04	124.04	124.04	124.04	124.04	124.04
Scale 100: Government Securities 151/000000 Fixed Interest 10000												
Oct 1980: Government Securities 151/000000 Fixed Interest 10000												
Fixed Interest: Government Securities 151/000000 Fixed Interest 10000												
Fixed Interest: Government Securities 151/000000 Fixed Interest 10000												
GILT EDGED ACTIVITY												
Indicator	Oct 25	Oct 22	Oct 21	Oct 20	Oct 19	Oct 18	Oct 17	Oct 16	Oct 15	Oct 14	Oct 13	Oct 12
Gilt Edged Bergmans	108.4	108.5	108.1	108.8	108.1	108.1	108.1	108.1	108.1	108.1	108.1	108.1
5-Year average	110.8	109.9	108.2	108.2	108.2	108.2	108.2	108.2	108.2	108.2	108.2	108.2

Andrew Bolger and Daniel Green on the softly, softly approach to a former force in the defence industry

Declining fortunes of Ferranti

A BUYER of Ferranti International would be acquiring a mixed bag of businesses. Today the company is a software house and systems integrator with a staff of 3,700.

It has a £200m order book, a pensions surplus of more than £100m, and shareholders funds of roughly £55m. It has large accumulated losses that could be offset against taxation.

Net debt is £25m.

Perhaps its most successful business is the £650 joint venture in sonar with French company Thomson-CSF, which has a contract to supply sonar for the UK's Trident nuclear submarine programme.

Ferranti also has an installed base of customers for naval command and control equipment. Customers include the Royal Navy and the navies of Brazil and South Korea.

In systems integration, it has a business that has worked on Saudi Arabia's air defence system and is still awaiting confirmation of a £100m order for a similar system for Bahrain.

Finally, it has a series of small suppliers of training ser-

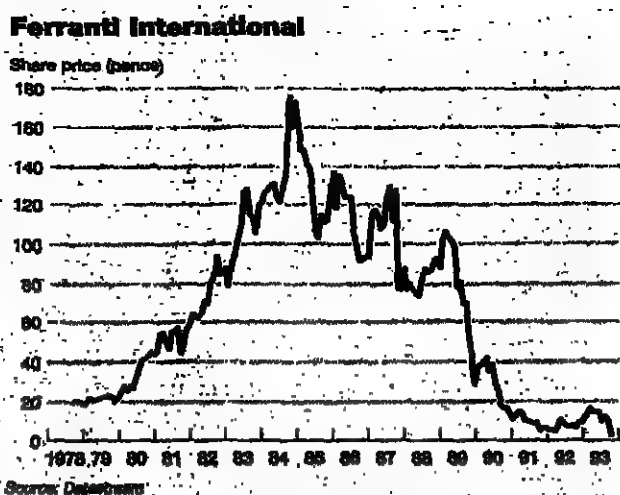
VICES and components such as fuses for munition.

The dismantling of Ferranti was precipitated in 1989 by the discovery of huge fraud in International Signal and Control, the US subsidiary which it bought in 1987.

A secretive defence group, the bulk of ISC's business had traditionally been in supplying bombs and security systems in the Middle East.

Ferranti's merger with ISC in 1987 was hailed as a natural marriage, even if its motivation for Ferranti was basically defensive. Both companies were military electronics contractors, but seemed to overlap very little. With 59 per cent of the combined group, Ferranti's control of it was assured.

A new group thus came into being with a market value of £100m. It was hailed as a main force in global defence industries, with 26,000 employees in a dozen countries and an order book worth more than £1.5bn.



Two years later, Ferranti revealed it had been the victim of a cleverly orchestrated fraud. The UK company had paid £420m for a company which it later said had zero net worth at the time of the purchase and made no net profits in the five years before the merger.

Mr James Guerin, ISC's founder, had become deputy chairman of Ferranti. He is now serving a 15-year sentence for financial fraud and illegal arms sales.

Discovery of the fraud blew a hole in Ferranti's balance sheet which it has since been desperately struggling to repair by selling bits of itself - including parts that were its pride and soul.

GEC picked the prize fruit of the Ferranti empire after the ISC debacle. In 1990, it paid £310m for Ferranti's radar division.

The business dated back to the Second World War and included the project leadership for the radar to equip the European Fighter Aircraft.

Last year, GEC-Marconi bought the company's missile business for £28m.

KPMG Peat Marwick, the UK's second largest accountancy firm, paid £40m to Ferranti to settle litigation over the acquisition of ISC, a former Peat Marwick audit client.

However, when Mr Eugene Anderson became chairman of Ferranti in 1990, it became clear that the ISC fraud was only part of Ferranti's prob-

lem: the rest of the business was not particularly well-managed either.

For Ferranti, which had been demoralised by government retrenchment, the 1987 merger had been meant to cushion the group against its former dependency on the UK Ministry of Defence and possible future failure to win important contracts such as the European Fighter Aircraft radar contract and the Type 23 frigate command and control system.

Mr Anderson would not criticise his predecessor, Sir Derek Alun-Jones.

Nevertheless, it was clear that he did not think highly of the group's organisation, the role played by head office, or the supervision of contracts.

Earlier this month Mr Anderson warned shareholders that Ferranti's first-half losses were likely to be higher than deficit of £10.9m in the corresponding period last year.

He said the company would continue to focus on its priorities of strengthening the balance sheet by equity injection or through strategic partnership while seeking to win new orders.



Eugene Anderson (above), who succeeded Sir Derek Alun-Jones (below right) as chairman. James Guerin is pictured left.

Caird £25m in the red after write-down

By Richard Gourlay

CAIRD, the waste management company which has been crippled by a flurry of acquisitions in the late 1980s, yesterday reported a pre-tax loss of £25.1m for the first half of 1993, after exceptional debits of £22.9m including a £17.5m write-down of assets.

The write-down followed a review by Mr David Weir, who replaced Mr Peter Linares as chief executive earlier this year.

He said a number of the landfill sites bought between 1988 and 1990 were no longer considered "commercially viable or capable of development".

Slower than anticipated disposal of aggregate stocks and non-core assets had

also led to a re-appraisal of market values.

In June Caird said it would not make a payment that month of the dividend on its convertible preference shares. The group said yesterday it did not expect to pay a preference dividend on December 31 either.

Caird's ordinary shares fell 4 1/2p to 7 1/2p and its preference shares from 37p to 28p.

Mr Christopher Parker, finance director, said the group would be concentrating further on its core businesses. Caird now defines this as the management of landfill sites capable of taking a wide range of domestic and industrial waste rather than its current portfolio which includes some sites only licensed to take dry waste.

"The fact is we have spent too much on

development of landfill sites in the last few years some of which we are now going to sell," said Mr Parker.

The group will also be reviewing plans to develop its incineration projects, including Renfrew in Scotland where the company is in dispute with the local authority.

Sales on continuing business fell by 13 per cent to £8.5m and the group reported an operating loss of £1.21m (£3.83m profit). Losses per share worked through at 46.56p (1.81p earnings).

As a result of the write-off, shareholders' funds have fallen to about £21m, leaving the company close to 100 per cent geared.

Caird said its strategy had the support of its bankers but that with its advisers it was seeking ways of strengthening its balance sheet.

Bradford Property at £17.5m

By David Blackwell

THE SALE of land near Ipswich for a Tesco superstore helped Bradford Property Trust, the UK's largest tenant residential property company, to lift pre-tax profits by more than 60 per cent, from £11.6m to £17.5m, for the six months to October 5.

Yesterday the shares closed 8p ahead at 239p.

The surplus from property rentals increased by almost 51 per cent from £5.3m to £8.4m. Dealing profits rose from £6.2m to £11.4m following the Ipswich land sale. Total operating profit was £17.5m (£11.6m).

Interest payable increased from £245,000 to £241,000.

The interim dividend, based on the surplus from property rentals after tax and preference dividends, rose from 4.4p to 2.9p. Earnings per share were up from 6.45p to 8.11p.

The company's business centres on buying tenanted properties at a discount to reflect the statutory rights of sitting tenants and selling them with vacant possession.

Roxboro to float with £80.5m tag

By Paul Taylor

SHARES in Roxboro, the Newmarket-based manufacturer of specialist electronic components which is coming to market through a placing and offer for sale, were priced at 230p yesterday, valuing the group at £80.5m.

The issue, which is fully underwritten by Samuel Montagu, involves 21.7m ordinary shares of which 14.1m (65 per cent) are expected to be placed with institutions; the balance of 7.6m will be offered to the public.

The group will raise about £11.9m net of expenses from

the issue. The proceeds will be used to repay debt and fund expansion.

Roxboro has forecast sharply higher trading and pre-tax profits for the current year. Trading profits after central costs, but before exceptional costs of £500,000, are forecast to more than double to £5.5m in the year to December 31, compared with £2.1m last year and £1.8m in 1991.

Earnings are expected to total 11.5p this year (or 13.2p before exceptional items). The national dividend for the current year is forecast at 1.8p. Dealings are expected to begin on November 8.

COMMENT

Since the management buy-out Roxboro's management has restructured the business and refocused Roxboro away from low-margin commodity components. The restructuring is now complete and the benefits should begin to show through next year. Profits will also benefit from the elimination of interest costs and the growth in sales of new products. Based on current year forecasts the shares are priced at a multiple of 17.5 - a substantial discount to others in the sector. This is a solid stock in a growth market at a reasonable price.

Sunset + Vine shows decline to £505,000

Profits at Sunset + Vine, the independent television production company, declined from £587,000 to £505,000 pre-tax over the 12 months to June 30.

Mr Colin Frewin, chairman, said the outcome reflected "the continuing state of flux in the UK television industry".

He added: "The impact of the first six months of the new independent television era, complicated by the new commissioning structure of the ITV network... together with the weakness of the economy had combined to make growth in the television business a very difficult task."

Turnover fell from £4.51m to £4.13m. Earnings were 4.1p (6.5p). A proposed final dividend of 3p makes a maintained 3.5p total.

Mr Noel Healy has been appointed managing director. He was formerly a director with Financiere Indosuez.

Wholesale fall leaves Bridgend at £25,000

Bridgend Group blamed a downturn in turnover at its wholesale distribution offshoot for a fall in profits from £299,000 to £25,000 before tax for the six months to end-June.

The division's sales fell from £6.32m to £5.6m leaving group turnover from continuing operations some 7 per cent lower at £7.6m. Operating profits of the sector declined from £261,000 to £317,000.

The group has interests in distribution and leisure. It said its investment programme had "paid off" and that it had received "indicative offers" for certain of its businesses.

As a result, the company expected significant sales in the second half.

Earnings per share emerged at 0.06p (0.7p) and the interim dividend is reduced from 0.2p to 0.1p.

Litho Supplies pathfinder forecasts jump to £4.3m

By Catherine Milton

LITHO Supplies, which claims to be the UK's largest independent distributor of printing products, is coming to the market through a placing and intermediaries offer likely to value the company at about £50m.

The pathfinder prospectus published yesterday forecasts pre-tax profits ahead by 27 per cent to £4.3m, compared with £3.35m for 1992, on sales of £24.7m.

Litho hopes the proceeds will break down into £15m of new money and £12m from sales by existing shareholders. Of the £12m, some £5m should go to the board and employees with £7m to institutions led by St.

The flotation is likely to reduce both the 33 per cent stake of existing institutional shareholders and the 47 per cent stake held by the

board and employees, beyond the diluting effect of the new issue.

Mr John Byford, joint managing director and deputy chairman, said the proceeds would reduce borrowings of £8.5m.

Litho was formed during a 1991 management buy-out from Penbridge Investments which acquired various Litho businesses as part of its hostile takeover of DRG, the printing and publishing group, in 1990.

The company estimated the market for consumable products, the bulk of its turnover, at £250m a year and 50 per cent of this is supplied directly by manufacturers. Litho claims a 40 per cent share of the balance and a 10,000-strong customer base.

The highest paid director will this year receive a salary of just £34,900, excluding a profit-related bonus of £82,555.

Trinity Intl go ahead

Trinity International Holdings' acquisition of newspapers published by Argus Newspapers and Joseph Woodhead & Sons has been approved by the Department of Trade and Industry. The purchases will increase Trinity's share of UK regional and local newspapers from 3.5 per cent to 5.3 per cent and its ranking from eighth to sixth.

Net assets up 48% at Govett Strategic Trust

Govett Strategic Investment Trust, the small and medium companies specialist whose shareholders recently voted for its life to be extended, had a net asset value, after taking prior charges at par, of 288.07p per share at September 30, an advance of 48 per cent on the 201.03p at the same stage last year.

Attributable revenue for the year to end-September amounted to £7.03m, down from £7.23m. Earnings per share were down from 7.38p to 7.18p.

The final dividend is maintained at 4.1p, giving an unchanged total of 8.7p.

Shareholders, who voted at an EGM in September for a continuation of the trust, in 1991 won the right to vote on its liquidation at the 1993 annual meeting and at subsequent three-year intervals.

Recession in France curbs Le Creuset

Le Creuset, the France-based but London-listed maker of cast iron cookware, announced almost static pre-tax profits of £1.16m for the six months to June 30.

Mr Paul van Zuydam, chairman, said progress had been held back by depressed conditions in France allied to high French interest rates and a relatively strong franc.

Although turnover advanced to £19.3m (£17.8m), volumes on cast iron products were down, particularly in France. However, volumes of Screw-pull wine accessories continued to increase.

Le Creuset recently acquired Germany-based Wolo, which will distribute Le Creuset and Screw-pull products as well as Weber Kettle barbecue grills and Zyliss kitchen helpers in Germany.

Earnings per share improved to 4.8p (4.6p).

European Leisure plans debt conversion

European Leisure, the disco and snooker hall operator, is planning to convert some of its debt into a combination of new ordinary and preference shares, writes David Blackwell.

Mr Ian Rock, chief executive, said that negotiations with banks were at an advanced stage. Details would be announced, along with full-year results, "sometime next month."

The group last March reported pre-tax profits of £54,000 on turnover of £35.3m for the six months to end-December. Net debt was £76.6m, giving gearing of 227 per cent. Distributable reserves were inadequate to pay dividends.

Mr Rock said that the restructuring proposals were not a crisis move. The group already had in place banking facilities to the end of next July.

Income rise at Marine Midland

By John Gapper, Banking Editor

MARINE MIDLAND, the US retail banking subsidiary of HSBC Holdings, yesterday reported a 62 per cent rise in net income for the third quarter of the year to £48.5m (£29.9m) against £29.9m.

The bank made no provision for loan losses in the

quarter after its non-accruing loans fell to £430m (£759.8m). Despite making no provisions, its ratio of reserves to non-accruing loans increased to 87.3 per cent (74.1 per cent).

Net interest income rose to \$189.2m (£173.7m), helped by a rise in credit card assets. Total assets rose by 2.7 per cent to \$16.8bn, and net yield on interest earning assets rose to 4.99 per cent (4.79 per cent).

Other operating income fell to \$50.5m (£82m) because of a one-off gain from the sale of mortgage backed securities last time and a drop in fee income.

The tier one ratio of capital to risk-weighted assets, an important measure of capital strength, rose to 9.85 per cent (9.29 per cent).

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Current - pending dividend	Total for year	Total last year
Betterware	0.65	Jan 3	0.5	-	2
Bradford Prop	2.9	Jan 6	2.4	-	5.4
Bridgend	0.1	Jan 4	0.2	-	0.4
Caird	0.1	Jan 5	1.25	-	1.35
Govett Strategic	4.1	Jan 5	4.1	6.75	6.75
IAWS A	1.14	-	1	2.1	2
Pressco	1.22	Dec 14	1.55	2.57	2.4
River/Merc Extn	1.98875	Dec 7	1.98875	7.875	7.875
Sunset + Vine	3	Dec 7	3	5.5	5.5
Thames Water	7.4	Feb 4	6.5	-	21

Dividends shown pence per share net except where otherwise stated. \$USM stock, 41p/10p.

This announcement appears as a matter of record only

October 1993

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Betterware's 21% rise fails to impress City

By Catherine Milton

SHARES IN Betterware yesterday fell 25p to 192p, despite the home shopping company reporting a 21 per cent increase in interim pre-tax profits.

Mr Andrew Cohen, chief executive, put down his glass and waited: "I don't understand the stock market and I don't suppose I ever will."

The board, which brought forward publication of the results in a bid to halt a share price drop from its high for the year of 280p, declared an interim dividend of 0.65p (0.5p) payable from earnings of 0.5p (4.25p) per share.

Pre-tax profits rose to £7.6m (£6.3m) in the 26 weeks to September 11 on turnover of £34.4m (£29.4m), including door-to-door sales of household products up at £28.4m (£23m).

The company's sales force, which now reaches 45 per cent of the population once every eight weeks, increased by 1,000 to an average of 10,000 with revenue steady at roughly 28 per cent.

Mr Cohen said he had failed to reassure some in the City about the company's ambitious plans to expand in continental Europe, although half year sales in the French operations - launched in 1991 - had exceeded £1m, giving trading profits of £100,000.

Betterware has recently started selling in Spain and is set to move into Germany in its next financial year.

"We don't seem to be able to reassure them. I am so bloody frustrated," Mr Cohen said, crumpling up his napkin.

He was unrepentant about the sale of 13 per cent of his family's then 63 per cent stake in June which precipitated the fall in the share price.

The sale raised some eyebrows in the City because Mr Cohen had previously said he had no plans to reduce the stake.

Yesterday he said firmly: "I am in the business of owning Betterware shares in the long term. If the shares continue to drop I will buy them back."

Operating profits from the main direct selling division expanded 20 per cent to £5.93m (£5.86m), a slower rate than the 23 per cent rise in sales.

Its other division, a miscellany of consumer products manufacture and coffee shops held for sale, returned operating profits of £151,000 (£140,000) on sales down at £5.97m (£6.37m).

COMMENT
Betterware's expansion into Europe comes too late to compensate for a slowdown in UK sales growth, dropping from 26 per cent year-on-year in the first quarter to July to 19 per cent for the first half. The Cohen family's unapologetic handling of the share sale, which opened the way for a bear raid, and results just below best expectations left the City expecting more than yesterday's business-as-usual presentation.

Analysts shaved pre-tax profit forecasts to about £16m from a maximum of £18m which puts the company on a multiple of 18.8, roughly in line with the stores sector.

Analysts estimate it could be worth some \$500m (£331m).

P&O said Laing Properties Inc would continue to own some 2.7m sq ft of commercial property, which was part of the dealing portfolio, and was expected to hold some 26 per cent of the REIT.

Analysts have said property sales would help P&O to reduce gearing - which stood at 70 per cent in September - and raise funds at a time when cash generation by its other operations was being hampered by recessionary markets.

The increase in stocks required to cover the opening of the Alabama factory was the main reason behind a rise in net borrowings from £2.9m to £5.9m over the year for gearing of 41 per cent.

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Pressac close to important order in US

By Andrew Baxter

PRESSAC Holdings yesterday announced a 6 per cent rise in annual profits and said it was "reasonably close" to winning a breakthrough order from a Japanese car manufacturer in the US for its instrument cluster circuit boards.

The Nottingham-based manufacturer of automotive, telecommunications and lighting products lifted pre-tax profits from £1.84m to £1.95m in the year ended July 31, after an exceptional charge of £147,000 (£177,000) relating to redundancies. This was despite a slight fall in turnover from £33.7m to £33m.

Earnings per share rose from 4.7p to 4.86p.

The final dividend is increased 10 per cent to 1.82p, making a total of 2.57p (2.49p) for the year.

Mr Roger Bolles, chairman, said increased demand for cars in the UK had been more than negated by a severe decline in the rest of Europe.

Excepting telecommunications and specialist engineering, demand fell during the year.

Pressac has spent more than £10.5m over the past three years to improve its production facilities, which increased efficiency and helped improve market share. Mr Geoff White, chief executive, said it had also helped the company win new business.

The completion of the instrument cluster circuitry plant in Alabama would allow the company to penetrate the important Japanese transplant market in the US.

Pressac was also looking to expand its recently-acquired automotive heated mirror business, especially in the US.

In telecommunications, Mr White said opportunities for Pressac's connectors were starting to materialise in the cable TV market.

In lighting, Mr White said the Masonite neon component subsidiary was working with General Motors to develop neon for automotive in-car lighting and rear lights. This would take Masonite into the automotive industry for the first time.

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Treaty that may spark a Dutch exodus

Netherlands investors face a tax threat. Andrew Jack and Ronald van de Krol report

THE "half-Dutch" sandwich is going stale; the heady "mixers" are losing their fizz. Some of the favourite nourishments in the cupboard of the tax practitioner are under threat as the process of ratifying a new US-Dutch tax treaty gathers speed.

The lower house of the Dutch parliament earlier this month approved the treaty; the upper house will consider it shortly. So too will the Senate foreign relations committee in Washington DC. Any day an interpretation of the treaty for senators will be circulated by the US Treasury.

Many British companies will be among those watching the details closely.

"Everybody you speak to now is very nervous," says Mr Bruce Lassman, head of the US tax desk at accountants Ernst & Young in London. "A large number of companies may be restructuring after this year."

Those businesses ceasing to be eligible under the revised treaty will face increases in US withholding taxes on dividends from 5 per cent to 30 per cent, and on interest payments from zero to 30 per cent.

The new arrangements are likely to threaten many UK companies which use Dutch holding companies as what tax advisers call "mixers".

"They reduce tax payments by offsetting tax liabilities from operations in high-tax and low-tax countries before repatriating it to the UK, since British tax law does not allow this to take place onshore."

They will be particularly affected by provisions in a protocol agreed last month between the two governments on Swiss branches of Dutch companies, which are used for financing.

It permits the US to impose a 15 per cent withholding tax unless income from Swiss branches is taxed at more than 17.5 per cent.

Currently, finance companies in Switzerland pay only 4 per cent tax on the income remitted to a Netherlands company, which can then be repatriated to the UK without any further tax being levied.

Among other companies and individuals affected by the treaty will be those who have invested in the US through

Dutch companies because they have no tax treaty of their own, such as those from Hong Kong, the Middle East, South Africa and Latin America.

They have typically invested in the US via a Dutch company, in turn owned by a Netherlands Antilles company - an arrangement known as a half-Dutch sandwich. If they invested directly, the US would

Dutch readiness to forgo taxes on profits, royalties and interest generated outside the country has attracted many foreign companies.

Now this position is under threat. The treaty has long been a thorn in the side of US tax authorities, who have spent the last 11 years negotiating a new document with their Dutch counterparts. The

stripped of their benefits.

In general, to remain under the terms of the new treaty companies will have to show that they are rooted in the Netherlands through one of four principal justifications:

● Ownership. The company must be 30 per cent Dutch owned.

● Active trader. It must be a significant trader, through a

test such as being at least a tenth the size of the US business by an average of assets, gross income and payroll.

● Headquarters. It must demonstrate a substantial portion of the overall supervision and administration of the group, have discretionary authority to take decisions or have subsidiaries in at least five countries, each contributing at least 10 per cent of gross income.

● Ruling. If it meets none of these tests, the company can still appeal for a discretionary ruling if it can argue that it was created to obtain benefits allowed under the treaty.

One way for UK companies to remain within the bounds of the treaty is to reorganise or restructure by 1995.

"It might seem a long time, but for an entire reorganisation it's actually quite short," says Mr André Boekhoudt, a tax partner at KPMG Meijburg.

Possible options for UK companies would be to transfer

result was initially signed just before Christmas last year.

The indications are that both the Dutch and the US are keen to press ahead rapidly with ratification, partly reflecting the tougher line on foreign corporations voiced by President Clinton. If both governments approve the treaty by December 1 this year, it could be in force by January 1 1995.

The original 100-page treaty and the related documents released since are highly complex. "The question is whether it is twice as long as the next longest treaty," says Mr Lassman.

Under the existing treaty, companies merely had to be registered in the Netherlands to be eligible. Now they will have to meet stringent tests to prove that they are economically "rooted" in the country.

That means financing subsidiaries and mailbox companies will almost certainly be

writer of Monarch's £12m rights issue in June 1992, is subscribing for the new shares at 116p each.

Mr Beckett said the shares represented about 4.5 per cent of the enlarged capital but would be spread through various funds.

In spite of unexpected water problems during recent development work, La Camorra was on budget and on schedule to start operations in June 1994.

Mr Beckett recalled that La Camorra was expected to be one of the world's lowest-cost gold mines with cash costs of about \$115 a tray ounce.

Mr Anthony Giall, president, said Revenin's performance had improved compared with the second half of 1992 when it recorded a \$1.41m loss.

Drilling at the Canaima concession had resulted in indicated resources of 183,000 ounces of gold with 69,000 ounces in the "inferred resource" category.

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Serco launches offer for rest of NZ associate

Serco Group, the contract management company, is paying up to £1.4m in an attempt to take its holding in Serco Group New Zealand from 47 per cent to 98 per cent.

The balance of the shares are held by management and staff in New Zealand.

Serco is offering one share for every 31.25 of B and C shares and NZ\$1 (£1.37p) for each D share. If accepted in full 103,040 new shares would be issued.

The four executive directors have agreed to accept in respect of shares representing 88 per cent of the issued capital. They are retaining a 2 per cent holding.

Serco NZ was the result of the privatisation in 1990 of the Property Services division of Works and Development Services Corporation.

In the year to June 30 it achieved a net profit of £268,000 on turnover of £18m. Net assets at the end of the period were £1.2m.

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Acquisition behind rise to £1.1m at GBE Intl

GBE International, the engineering equipment company formerly known as Downie, reported pre-tax profits of £1.02m for the half year to June 30, against £303,000.

The results were the first since the acquisition of GBE in June and were prepared on a merger accounting basis.

Turnover totalled £18.3m (£15m) with acquisitions putting in £17.3m (£14.2m). Earnings per share emerged at 1.37p (1.03p).

Mr Gerald Edwards, chairman, said the outlook for the remainder of the year was encouraging and he expected further progress to be made.

However, the old Downie divisions incurred losses. Mr Edwards said that an improvement in trading had recently been experienced.

Operating profits of £1.31m (£990,000) were struck after losses from continuing activities of £38,000 (£42,000). Interest payable fell to £131,000 (£187,000).

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Quarta springs into action

The gaping tear left in the management structure of motor components-to-aerospace group BBA by the forced resignation through illness of group chief executive John White in August is about to be mended.

Roberto Quarta, 44, American-born son of an Italian tailor, is to move from his main board directorship at BTR to take over White's job from November 1.

Quarta, who had been seen as one of the main rivals for BTR chief executive Alan Jackson's job as and when the latter retires, is expected to continue White's strategy of increasing BBA's growth around its core businesses of motor components, industrial



materials, aerospace equipment and electrical equipment. Some BBA watchers who have been expecting BBA's acquisition rate to slow could

still be in for a surprise. Quarta, said to rejoice in the nickname CS - for cold spring - among some colleagues, is unlikely to allow the group to mark time for long after getting his feet under White's desk.

Apart from a four-year stint with motor and aircraft components group BTR in the US, Quarta has been a BTR man since 1978, when BTR took over the Massachusetts controls company of which he was then a vice-president.

In addition to his main board role - undertaken at the start of this year - he has been chief executive of a number of BTR divisions, including automotive, construction services and electronics.

Bodies politic

The Civil Aviation Authority has appointed Rod Lynch, 44, to its governing board. The CAA board comprises a selection of full and part-time members with financial, aviation, air safety and other appropriate qualifications and experience. It is responsible for civil aviation policy in the UK, including air traffic control and safety regulations. Its chairman is the Rt Hon Christopher Chataway, the former government minister.

Lynch is currently managing director of resources, engineering and services at the British Broadcasting Corporation, having joined the BBC from Forti Hotels - where he was sales and marketing director - in May this year.

But Lynch can offer the CAA more than guidance as to improvements in its catering. He worked for 20 years in the airline business before moving to Forti 18 with British Airways - where he became head of customer services - and two as managing director of Air Europe.

Antonio Nocchi, md of Italian Railways FS, has been elected chairman of the INTERNATIONAL UNION OF RAILWAYS (UIR).

Patrick O'Shea, deputy group md of Avonmore Foods, has been elected president of the EUROPEAN ASSOCIATION OF LACTOSE MANUFACTURERS.

David Thomas has been promoted to take responsibility for the local government division of the CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY following the retirement of Arthur Boulter.

Roger Hayes (below), formerly vice-president, public and government affairs at Ford of Europe, has been appointed director-general of the BRITISH NUCLEAR INDUSTRY FORUM.



Pavia to quit Lasmo

Michael Pavia, finance director of Lasmo, the independent oil exploration and production company, is to leave the company at the end of the year - the latest in a series of moves among senior executives as the company searches for a strategy to see it through a troubled period of weak oil prices.

The future of Pavia, who has been with Lasmo for 14 years, had been the subject of much market speculation since the middle of last week. Joe Darby,

chief executive, says his departure was "one of several changes... following a thorough review of the company's strategy and management". Earlier this year, John Hogan was appointed chief operating officer and Peter Nolan took over as head of exploration, while Darby himself only joined the company in February.

City sentiment towards Lasmo has been decidedly gloomy of late, in large part because of its vulnerability to low oil prices, and the prospect of growing debt to finance new production.

Darby yesterday denied that

any additional moves were being planned, although at least one non-executive post will open up next year.

Pavia's departure comes after a particularly active year, in which he helped Lasmo to raise \$900m on the US capital markets. He also recently completed the financing of Lasmo's \$350m share of the development costs for the Liverpool Bay oil and gas field, one of the projects which the company is hoping will boost its fortunes in coming years.

Lasmo says there are several internal candidates for finance director, but executive search consultants will also be used.

John Ainsworth (below centre), chief executive of SCAPA Group's European engineered fabrics division, is the chairman of Scapa Scandia, created by the merger of Scapa-Portit and Scandiafelt; Brian Little (below left) and Anders Göthlin (below right) are the joint mds. Harry Tuley remains chairman of Scapa.



EXPRESS GROUP: he succeeds Adam Mills who continues as deputy chief executive.

Diana Scott-Kilvert, latterly a consultant and up to 1990 managing partner of Broadbent-Jones & Partners, has been appointed to the board of PRO NED.

Marcus Hamfield, formerly sales and distribution director of LYONS Tetley, has been appointed md of its Turkish subsidiary, Tetley Cay Ticeret.

Malcolm Parkinson, a non-executive director of James Latham and a former chief executive of Woolworth Holdings, has been appointed md for Europe and the Middle East for SEGEL & GALE, based in London.

Brian Summers, formerly deputy md, has been appointed md of BIRMINGHAM INTERNATIONAL AIRPORT to replace Bob Taylor when he retires in April next year.

There is a limited amount of marketing opportunities available at the conference

FT

FINANCIAL TIMES CONFERENCES

DOING BUSINESS WITH SPAIN

- The economic challenge of the new Government
Madrid, 1 & 2 December 1993

The FT's annual conference, arranged with Expansión and Actualidad Económica, will review the economic, budget and labour policies of the new Spanish Government as well as important questions on Europe's future and the conditions for monetary and political union.

The distinguished panel of speakers includes:

D. Pedro Solbes Mira
Minister of Economy & Finance, Spain

D. José Antonio Grinán Martínez
Minister of Labour & Social Security, Spain

D. Miguel Roca Junyent
Convergència i Unió (CiU)

D. José María Zufiaur Narvaiza
Unión General de Trabajadores

D. Juan Antonio Sagardoy Bengoechea
University of Madrid

D. Matías Rodríguez Inclarte
Banco Santander

Mr Roberto Mendoza
Vice Chairman, J P Morgan

D. Luis Angel Rojo
Servicio de España

D. Miguel Cuenca Valdivia
Instituto Nacional de Industria

Mr William O Walker Jr
Du Pont Iberica, SA

D. Oscar Fanjul Martín
Repsol, SA

D. José Ignacio López de Arriortúa
Volkswagen AG

D. Javier Gómez Navarro
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RENEWABLE

The Finnish forest is a renewable and natural resource. A unique regeneration programme ensures that 300 million saplings are planted every year to ensure the continuous growth of this precious asset, which covers two thirds of Finland's total land surface area.

Only indigenous species are used, helping to preserve Finland's natural biodiversity. In the forest, which are privately owned by family foresters - selective thinnings and regeneration cuttings are prevailing forestry practices which add to the creation of a healthier and more natural forest.

RECYCLABLE

The Finnish forest industry does not oppose recycling. Indeed in Finland alone, the recovery rate is high by international standards - more than half of the recoverable material is collected to be used again. And across Europe, forestry and recycling work hand in hand.

Paper and board does not last forever. In practice, fibres can only be recycled three to five times. So a continuous supply of primary fibre products is necessary to keep the cycle in motion. It is of paramount importance to ensure that this primary material comes from a reliable source.

RESPONSIBLE

The aim of the Finnish forest industry is to safeguard the renewal of Finnish forests through successive natural regeneration and active planting. Increased recycling and the continual development of manufacturing technologies which aim to control emissions and reduce energy consumption, are at the top of the industry's list of priorities along with the enormous investments made each year to further environmental protection.

Forestry is part of Finnish heritage and the Finnish forest industry can truly be trusted as the guardians of one of the planet's most valuable natural resources.

The Finnish Forest Industries Federation hopes to bring the issues that surround the forest industry into the limelight for discussion.

As part of its efforts, the association will host a national seminar in London on 1st December 1993. For further information on this and the Finnish Forest Industries Federation, please contact our UK Information Office at 54 Poland Street, London W1V 3DF.

COMMODITIES AND AGRICULTURE

Tin producers agree to cut exports

By Kieran Cooke in Singapore

THE WORLD'S biggest tin producers have agreed a series of measures that they hope will reduce global stocks and raise prices.

The Association of Tin Producing Countries, at the conclusion of a meeting in Kuala Lumpur, said 1994 tin exports by member countries would be limited to 75,000 tonnes - a 13 per cent reduction from the present annual exports permitted under its quota regime.

The ATPC groups Malaysia, Indonesia, Nigeria, Thailand, Australia, Bolivia and Zaire.

For the present China and Brazil, two of the world's biggest tin producers, remain outside the association. But earlier this week the former country agreed to join the ATPC by the end of the year. China's tin exports, which are said by some ATPC delegates to have been as high as 30,000 tonnes last year, are felt to be one of the main reasons for the slump in tin prices over

the past few years.

Mr Lim Keng Yaik, Malaysia's minister of primary industries, said low tin prices were also caused by increased sales of tin stocks by the US Defence Logistics Agency. Tin prices in Malaysia, once the world's biggest producer, dropped to a historic low of \$10.78 (M\$4.22) a kilogram last month, compared with \$332 ten years ago.

"We hope the measures taken will induce an upward movement of prices from the

current ridiculously low levels," said Mr Lim.

The association, while noting that tin prices had rallied somewhat in recent weeks, said the most important task was to reduce the global tin stockpile, at present estimated to be 40,000 tonnes. "It is reasonable to expect a meaningful depletion of around 10,000 tonnes in the stock level during 1994, thereby reducing the total overhang to a more manageable 25,000 tonnes" said the ATPC.

Aluminium crashes to 8-year low

By Kenneth Gooding, Mining Correspondent

ALUMINIUM'S PRICE crashed through an important technical support level yesterday to end the day on the London Metal Exchange at its lowest point for eight years.

The fall triggered widespread selling on the LME, driving copper prices down to fresh six-year lows and taking zinc and nickel to near seven-year lows while tin was near its lowest point for 30 years.

Analysts suggested this reflected the fundamentally gloomy world economic situa-

Unpropitious time chosen for British Coal's export drive

By Gerard McCloskey

BRITISH COAL is understandably pleased with itself this week as it begins to ship its biggest export order this year - for 100,000 tonnes of steam coal to a Danish electricity generator. But it could hardly have chosen a more difficult time to make a push into the European market.

Steam coal prices look set to fall once again for 1994 deliveries. Contracts are now being concluded between the South African producers and the Belgian utility Electrabel at prices \$5 below last year's, giving a 1994 price at the South African export terminal of \$27 a tonne.

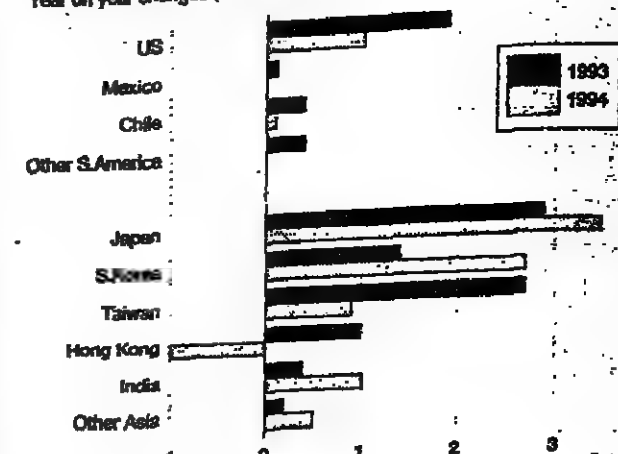
While ENEL has been cutting back its annual purchases from nearly 10m tonnes to about 2m tonnes this year, EDF, PowerGen and National Power have been transformed into companies selling on their imports rather than signing up for new business. Earlier this year EDF found itself in the embarrassing position of paying suppliers either to delay or cancel deliveries.

Although some expansion in purchases can be expected in Europe from GKE, from Electricidade de Portugal and from Morocco, 1994 looks likely to be as gloomy as 1993.

In contrast to Europe, the Asian market is undergoing a boom. Although a cool wet summer kept demand down in Japan, the sheer volume of new coal-fired power stations coming on to the grid bodes well for irresistible growth throughout the decade. Elsewhere in Asia - particularly in South Korea - demand for imports is mounting as much from new power stations as from, in southern

Coal Imports

Year on year changes (million tonnes)



Source: British Coal Information

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Keeping the faith in a falling market

Kieran Cooke talks to a mine operator who refuses to admit defeat

MR SIA Hok Kiang, a Malaysian tin miner, sat in his hut surrounded by jungle anxiously watching the latest prices on his computer screen.

The tin market was falling yet again. Ten years earlier the metal had been fetching between M\$32 (US\$13) and M\$34 a kilogram at the Kuala Lumpur Tin Market; now it was down to M\$10.80.

"It just can't go on like this," said Mr Sia. "There's no sense in tin prices being so low. By any judgment, prices will have to start rising again." He has since been proved right - last week the KLTM price touched M\$12.71, but that was still well below the break-even level for most of the world's producers.

Mr Sia is managing director and part owner of the world's most extensively developed underground tin mine at Sungel Lembing, a remote settlement at the end of a valley on peninsular Malaysia's east coast.

At the turn of the century 5,000 miners were producing more than 4,000 tonnes of tin a year at Sungel Lembing. Now only 55 miners work at the mine.

"I am ashamed to say how little we are producing now," said Mr Sia. "We are mining enough to cover costs and stop the mine falling into total neglect. That's all we can do with prices being the way they are."

Malaysia was once the world's leading tin producer. Tin is part of the country's history: hundreds of thousands of immigrants from China originally came to the country to

work the tin mines. But with prices falling, tin mines have been closing. Ten years ago Malaysia was producing more than 60,000 tonnes of tin in concentrates. This year production will probably fall to below 10,000 tonnes.

Mr Sia, a geologist who, through a varied career, has prospected for gold in Peru and

"These traders are able to manipulate prices between Kuala Lumpur and London," he explained. "They buy cheap and make a killing when prices rise. The Kuala Lumpur market should be shut down, then trading would be much more transparent."

Sungel Lembing was originally developed by Cornish tin

records of the mine. "The British kept thorough recordings of geological structures for every six inches of tunnel advance," he said. "When I came here they were stacked ceiling high. I now have a complete record of the workings from the turn of the century up to 1986. Only the war years, when the Japanese flooded the mine, are missing."

Sungel Lembing has more than 700,000 tonnes of proven and probable ore reserves, containing nearly 10,000 tonnes of recoverable metal. Mr Sia said the average grading was about 1.5 per cent, though some fairly extensive workings contained about 15 per cent.

"Last August I found a very rich deposit with 55 per cent grading," said Mr Sia. "With tin prices so low I don't want to mine this precious reserve. But obviously such rich deposits are easier to mine and give a far better return."

Substantial amounts of money have to be invested in the mine to shore up the tunnels and replace rusting railway tracks. To cover costs Mr Sia is contemplating using the mine's surface area to plant palm oil and other cash crops.

"Some people call me eccentric," admitted Mr Sia, "but I'm determined to keep Sungel Lembing open. If prices are still down at present levels in a few years time I might have to concede defeat. But if prices rise, I'll become a big player in the market. There are those who describe tin mining as a sunset industry. I say that the sunset is always followed by the sunrise."

diamonds in central Africa, is one of the few in the tin industry confident about the future. "Tin cannot just go out of fashion," he said. "It's still an essential metal, a vital part of so many products."

Mr Sia's optimism was based on the view that global demand for tin remained strong, at about 100,000 tonnes a year, while all the signs pointed to a fall in world production.

"There is a lot of rubbish being talked about the collapse in tin prices," he insisted. "People talk about growing production by China and about the US selling off its tin stockpiles. That alone doesn't explain the price drop. I think the market is being manipulated."

Mr Sia forecast that the world stockpile of tin, estimated at about 40,000 tonnes, would soon start to fall. And he accused some traders of inventing figures on world production and creating an artificial surplus.

WEEKLY MINOR METALS PRICES

Prices from Metal Bulletin (last week's in brackets).

ANTIMONY: European free market, 99.6 per cent, \$ per tonne, in warehouse, 1,580-1,625 (1,570-1,615).

BISMUTH: European free market, 99.98 per cent, \$ per lb, in warehouse, 2,30-2,50 (same).

CADMIUM: European free market, 99.5 per cent, \$ per lb, in warehouse, 0.38-0.42 (0.38-0.44).

COBALT: MB free market, 99.8 per cent, \$ per lb, in warehouse, 11.55-12.10 (11.60-12.15); 99.3 per cent, \$ per lb, in warehouse, 10.65-11.20 (10.70-11.35).

MERCURY: European free

market, min. 99.99 per cent, \$ per 76 lb flask, in warehouse, 95-110 (same).

MOLYBDENUM: European free market, drummed molybdenic oxide, \$ per lb, in warehouse, 2.55-2.65 (2.52-2.62).

SELENIUM: European free

market, min. 98 per cent, \$ a lb, in warehouse, 4.45-5.25.

TUNGSTEN ORE: European free market, standard min. 65 per cent, \$ per tonne unit (10 kg) WO₃, cif, 27-37 (same).

VANADIUM: European free

market, min. 98 per cent, \$ a lb, in warehouse, 1.30-1.45 (same).

URANIUM: Nuxco exchange value, \$ per lb, U₃O₈, 6.90 (same).

WORLD COMMODITIES PRICES

MARKET REPORT

The GOLD retreated from near the top of its recent trading range yesterday, but found support again above the \$365-a-ounce mark. Dealers said physical buyers and bargain-hunting investors were attracted by a fall towards \$366, but the price still ended London trading with a net fall of \$4.50 at \$367.25 an ounce. Gold's performance undermined SILVER market sentiment and the junior precious metal closed in London at \$4.381 an ounce, down 9 cents. "Silver has run out of steam and some of its technical indicators have now turned slightly bearish," one trader commented. The

London Markets

SPOT MARKETS

Grade oil (per barrel FOB/Dec) + or -

Dubai \$14.43-4.47 +0.00
Brent (Basis Dec) \$16.00-6.00 +1.40
Brent (Basis Jan) \$16.00-6.00 +1.40
WTI (Basis Dec) \$17.40-7.40 +1.35

Oil products

(FIVE prompt delivery per tonne CIF + or -)

Phenomen Gasoline \$164-167 -2
Gas Oil \$165-168
Heavy Fuel Oil \$61-63
Naphtha \$154-157 -3

Other

Gold (per troy oz) \$367.25 -4.5
Silver (per troy oz) \$438.50 -0.3
Platinum (per troy oz) \$871.00 -5.35
Palladium (per troy oz) \$130.00 -1.10

Copper (US Producer) \$4.50
Lead (US Producer) \$35.00
Tin (Kuala Lumpur market) \$11.50
Tin (New York) \$20.00
Zinc (US Prime Western) \$1.00

Cash (five weight) \$118.80 +0.80
Strip (five weight) \$78.10 +1.31
Strip (five weight) \$65.80 +0.80

London daily sugar (raw) \$204.3
London daily sugar (white) \$209.0
Tide and Life export price \$209.0

Betty (English feed) \$1.00
Maze (US No. 3 yellow) \$12.00
Wheat (US Dark Northern) \$108.5

Rubber (Nov/Dec) \$1.00
Rubber (Dec/Jan) \$1.00
Rubber (Jan/Feb) \$1.00

Commodity (Philippines) \$435.00
Palm Oil (Malaysia) \$235.00
Cocoa (Philippines) \$285.00
Soybeans (US) \$215.00
Cotton (US Index) \$43.50
Wool (US Index) \$37.00

2 a tonne unless otherwise stated; p=per tonne; c=cent; f=fifty; g=gallon; h=hundred; l=lb; m=metric ton; n=new; o=ounce; s=six; t=tone; u=unit; w=weight; y=year.

Source: London Metal Exchange, Metal Bulletin, Commodity Price Index, etc.

Prices are for prompt delivery unless otherwise stated.

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LONDON METAL EXCHANGE

Copper

Close Previous High/Low

Mar 10.87 10.86 10.86 10.81
May 10.86 10.86 10.86 10.81

Copper

Close Previous High/Low

Mar 10.87 10.86 10.86 10.81
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INVESTMENT TRUSTS - Cont

ملکات اسلامی

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INVESTMENT TRUSTS - Cont.

Trust Name	Price	Change	1993	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928	1927	1926	1925	1924	1923	1922	1921	1920	1919	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	1908	1907	1906	1905	1904	1903	1902	1901	1900	1899	1898	1897	1896	1895	1894	1893	1892	1891	1890	1889	1888	1887	1886	1885	1884	1883	1882	1881	1880	1879	1878	1877	1876	1875	1874	1873	1872	1871	1870	1869	1868	1867	1866	1865	1864	1863	1862	1861	1860	1859	1858	1857	1856	1855	1854	1853	1852	1851	1850	1849	1848	1847	1846	1845	1844	1843	1842	1841	1840	1839	1838	1837	1836	1835	1834	1833	1832	1831	1830	1829	1828	1827	1826	1825	1824	1823	1822	1821	1820	1819	1818	1817	1816	1815	1814	1813	1812	1811	1810	1809	1808	1807	1806	1805	1804	1803	1802	1801	1800	1799	1798	1797	1796	1795	1794	1793	1792	1791	1790	1789	1788	1787	1786	1785	1784	1783	1782	1781	1780	1779	1778	1777	1776	1775	1774	1773	1772	1771	1770	1769	1768	1767	1766	1765	1764	1763	1762	1761	1760	1759	1758	1757	1756	1755	1754	1753	1752	1751	1750	1749	1748	1747	1746	1745	1744	1743	1742	1741	1740	1739	1738	1737	1736	1735	1734	1733	1732	1731	1730	1729	1728	1727	1726	1725	1724	1723	1722	1721	1720	1719	1718	1717	1716	1715	1714	1713	1712	1711	1710	1709	1708	1707	1706	1705	1704	1703	1702	1701	1700	1699	1698	1697	1696	1695	1694	1693	1692	1691	1690	1689	1688	1687	1686	1685	1684	1683	1682	1681	1680	1679	1678	1677	1676	1675	1674	1673	1672	1671	1670	1669	1668	1667	1666	1665	1664	1663	1662	1661	1660	1659	1658	1657	1656	1655	1654	1653	1652	1651	1650	1649	1648	1647	1646	1645	1644	1643	1642	1641	1640	1639	1638	1637	1636	1635	1634	1633	1632	1631	1630	1629	1628	1627	1626	1625	1624	1623	1622	1621	1620	1619	1618	1617	1616	1615	1614	1613	1612	1611	1610	1609	1608	1607	1606	1605	1604	1603	1602	1601	1600	1599	1598	1597	1596	1595	1594	1593	1592	1591	1590	1589	1588	1587	1586	1585	1584	1583	1582	1581	1580	1579	1578	1577	1576	1575	1574	1573	1572	1571	1570	1569	1568	1567	1566	1565	1564	1563	1562	1561	1560	1559	1558	1557	1556	1555	1554	1553	1552	1551	1550	1549	1548	1547	1546	1545	1544	1543	1542	1541	1540	1539	1538	1537	1536	1535	1534	1533	1532	1531	1530	1529	1528	1527	1526	1525	1524	1523	1522	1521	1520	1519	1518	1517	1516	1515	1514	1513	1512	1511	1510	1509	1508	1507	1506	1505	1504	1503	1502	1501	1500	1499	1498	1497	1496	1495	1494	1493	1492	1491	1490	1489	1488	1487	1486	1485	1484	1483	1482	1481	1480	1479	1478	1477	1476	1475	1474	1473	1472	1471	1470	1469	1468	1467	1466	1465	1464	1463	1462	1461	1460	1459	1458	1457	1456	1455	1454	1453	1452	1451	1450	1449	1448	1447	1446	1445	1444	1443	1442	1441	1440	1439	1438	1437	1436	1435	1434	1433	1432	1431	1430	1429	1428	1427	1426	1425	1424	1423	1422	1421	1420	1419	1418	1417	1416	1415	1414	1413	1412	1411	1410	1409	1408	1407	1406	1405	1404	1403	1402	1401	1400	1399	1398	1397	1396	1395	1394	1393	1392	1391	1390	1389	1388	1387	1386	1385	1384	1383	1382	1381	1380	1379	1378	1377	1376	1375	1374	1373	1372	1371	1370	1369	1368	1367	1366	1365	1364	1363	1362	1361	1360	1359	1358	1357	1356	1355	1354	1353	1352	1351	1350	1349	1348	1347	1346	1345	1344	1343	1342	1341	1340	1339	1338	1337	1336	1335	1334	1333	1332	1331	1330	1329	1328	1327	1326	1325	1324	1323	1322	1321	1320	1319	1318	1317	1316	1315	1314	1313	1312	1311	1310	1309	1308	1307	1306	1305	1304	1303	1302	1301	1300	1299	1298	1297	1296	1295	1294	1293	1292	1291	1290	1289	1288	1287	1286	1285	1284	1283	1282	1281	1280	1279	1278	1277	1276	1275	1274	1273	1272	1271	1270	1269	1268	1267	1266	1265	1264	1263	1262	1261	1260	1259	1258	1257	1256	1255	1254	1253	1252	1251	1250	1249	1248	1247	1246	1245	1244	1243	1242	1241	1240	1239	1238	1237	1236	1235	1234	1233	1232	1231	1230	1229	1228	1227	1226	1225	1224	1223	1222	1221	1220	1219	1218	1217	1216	1215	1214	1213	1212	1211	1210	1209	1208	1207	1206	1205	1204	1203	1202	1201	1200	1199	1198	1197	1196	1195	1194	1193	1192	1191	1190	1189	1188	1187	1186	1185	1184	1183	1182	1181	1180	1179	1178	1177	1176	1175	1174	1173	1172	1171	1170	1169	1168	1167	1166	1165	1164	1163	1162	1161	1160	1159	1158	1157	1156	1155	1154	1153	1152	1151	1150	1149	1148	1147	1146	1145	1144	1143	1142	1141	1140	1139	1138	1137	1136	1135	1134	1133	1132	1131	1130	1129	1128	1127	1126	1125	1124	1123	1122	1121	1120	1119	1118	1117	1116	1115	1114	1113	1112	1111	1110	1109	1108	1107	1106	1105	1104	1103	1102	1101	1100	1099	1098	1097	1096	1095	1094	1093	1092	1091	1090	1089	1088	1087	1086	1085	1084	1083	1082	1081	1080	1079	1078	1077	1076	1075	1074	1073	1072	1071	1070	1069	1068	1067	1066	1065	1064	1063	1062	1061	1060	1059	1058	1057	1056	1055	1054	1053	1052	1051	1050	1049	1048	1047	1046	1045	1044	1043	1042	1041	1040	1039	1038	1037	1036	1035	1034	1033	1032	1031	1030	1029	1028	1027	1026	1025	1024	1023	1022	1021	1020	1019	1018	1017	1016	1015	1014	1013	1012	1011	1010	1009	1008	1007	1006	1005	1004	1003	1002	1001	1000	999	998	997	996	995	994	993	992	991	990	989	988	987	986	985	984	983	982	981	980	979	978	977	976	975	974	973	972	971	970	969	968	967	966	965	964	963	962	961	960	959	958	957	956	955	954	953	952	951	950	949	948	947	946	945	944	943	942	941	940	939	938	937	936	935	934	933	932	931	930	929	928	927	926	925	924	923	922	921	920	919	918	917	916	915	914	913	912	911	910	909	908	907	906	905	904	903	902	901	900	899	898	897	896	895	894	893	892	891	890	889	888	887	886	885	884	883	882	881	880	879	878	877	876	875	874	873	872	871	870	869	868	867	866	865	864	863	862	861	860	859	858	857	856	855	854	853	852	851	850	849	848	847	846	845	844	843	842	841	840	839	838	837	836	835	834	833	832	831	830	829	828	827	826	825	824	823	822	821	820	819	818	817	816	815	814	813	812	811	810	809	808	807	806	805	804	803	802	801	800	799	798	797	796	795	794	793	792	791	790	789	788	787	786	785	784	783	782	781	780	779	778	777	776	775	774	773	772	771	770	769	768	767	766	765	764	763	762	761	760	759	758	757	756	755	754	753	752	751	750	749	748	747	746	745	744	743	742	741	740	739	738	737	736	735	734	733	732	731	730	729	728	727	726	725	724	723	722	721	720	719	718	717	716	715	714	713	712	711	710	709	708	707	706	705	704	703	702	701	700	699	698	697	696	695	694	693	692	691	690	689	688	687	686	685	684	683	682	681	680	679	678	677	676	675	674	673	672	671	670	669	668	667	666	665	664	663	662	661	660	659	658	657	656	655	654	653	652	651	650	649	648	647	646	645	644	643	642	641	640	639	638	637	636	635	634	633	632	631	630	629	628	627	626	625	624	623	622	621	620	619	618	617	616	615	614	613	612	611	610	609	608	607	606	605	604	603	602	
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AUTHORISED UNIT TRUSTS

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1997-98		1998-99		1999-00		2000-01		2001-02		2002-03		2003-04		2004-05		2005-06		2006-07		2007-08		2008-09		2009-10		2010-11		2011-12		2012-13		2013-14		2014-15		2015-16		2016-17		2017-18		2018-19		2019-20		2020-21		2021-22		2022-23		2023-24		2024-25		2025-26		2026-27		2027-28		2028-29		2029-30		2030-31		2031-32		2032-33		2033-34		2034-35		2035-36		2036-37		2037-38		2038-39		2039-40		2040-41		2041-42		2042-43		2043-44		2044-45		2045-46		2046-47		2047-48		2048-49		2049-50		2050-51		2051-52		2052-53		2053-54		2054-55		2055-56		2056-57		2057-58		2058-59		2059-60		2060-61		2061-62		2062-63		2063-64		2064-65		2065-66		2066-67		2067-68		2068-69		2069-70		2070-71		2071-72		2072-73		2073-74		2074-75		2075-76		2076-77		2077-78		2078-79		2079-80		2080-81		2081-82		2082-83		2083-84		2084-85		2085-86		2086-87		2087-88		2088-89		2089-90		2090-91		2091-92		2092-93		2093-94		2094-95		2095-96		2096-97		2097-98		2098-99		2099-00		2100-01		2101-02		2102-03		2103-04		2104-05		2105-06		2106-07		2107-08		2108-09		2109-10		2110-11		2111-12		2112-13		2113-14		2114-15		2115-16		2116-17		2117-18		2118-19		2119-20		2120-21		2121-22		2122-23		2123-24		2124-25		2125-26		2126-27		2127-28		2128-29		2129-30		2130-31		2131-32		2132-33		2133-34		2134-35		2135-36		2136-37		2137-38		2138-39		2139-40		2140-41		2141-42		2142-43		2143-44		2144-45		2145-46		2146-47		2147-48		2148-49		2149-50		2150-51		2151-52		2152-53		2153-54		2154-55		2155-56		2156-57		2157-58		2158-59		2159-60		2160-61		2161-62		2162-63		2163-64		2164-65		2165-66		2166-67		2167-68		2168-69		2169-70		2170-71		2171-72		2172-73		2173-74		2174-75		2175-76		2176-77		2177-78		2178-79		2179-80		2180-81		2181-82		2182-83		2183-84		2184-85		2185-86		2186-87		2187-88		2188-89		2189-90		2190-91		2191-92		2192-93		2193-94		2194-95		2195-96		2196-97		2197-98		2198-99		2199-00		2200-01		2201-02		2202-03		2203-04		2204-05		2205-06		2206-07		2207-08		2208-09		2209-10		2210-11		2211-12		2212-13		2213-14		2214-15		2215-16		2216-17		2217-18		2218-19		2219-20		2220-21		2221-22		2222-23		2223-24		2224-25		2225-26		2226-27		2227-28		2228-29		2229-30		2230-31		2231-32		2232-33		2233-34		2234-35		2235-36		2236-37		2237-38		2238-39		2239-40		2240-41		2241-42		2242-43		2243-44		2244-45		2245-46		2246-47		2247-48		2248-49		2249-50		2250-51		2251-52	
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Cotton		Wool		Hides		Grains		Oilseeds		Metals		Fuels		Softwood		Hardwood	
Grade	Price	Grade	Price	Grade	Price	Grade	Price	Grade	Price	Grade	Price	Grade	Price	Grade	Price	Grade	Price
Upland	1.15	Wool	1.25	Black	1.10	Wheat	1.10	Soybean	1.10	Aluminum	1.10	Crude	1.10	Softwood	1.10	Hardwood	1.10
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INITIAL CANCELLATION: Cattle made an sale of units. Used to deliver marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called lowest price. The price of which units are subject by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The minimum spread between the offer and the bid price is determined by a formulaic rule based on the size of the units. In practice, most unit trust managers quote a narrow redemption spread. The cancellation price is often set above the cancellation price. However, the bid price might be allowed to fall below the cancellation price for the investors to get a commission to encourage them to sell. This is a large element of the price of units.

TIME: The time taken alongside the unit manager's name is the time of the unit trust's redemption price. The time taken to be included in the redemption price is the time taken to be included in the redemption price. The time taken to be included in the redemption price is the time taken to be included in the redemption price.

UNIT TRUSTS: A unit trust is a company that issues units to investors. The units are sold at a price of 1.00. The units are sold at a price of 1.00. The units are sold at a price of 1.00.

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Top 1000 U.S. Publicly Traded Companies									
Dec 31, 1999									
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Midwest		91-92	92-93	93-94	94-95
Top Domestic Truck Producers (1000s)					
GM Domestic Trucks	1,000,000	950,000	920,000	900,000	880,000
Chrysler Trucks	250,000	240,000	230,000	220,000	210,000
Ford American Trucks	180,000	170,000	160,000	150,000	140,000
Chrysler Light Trucks	120,000	110,000	100,000	90,000	80,000
Ford Light Trucks	100,000	90,000	80,000	70,000	60,000
GM Light Trucks	80,000	70,000	60,000	50,000	40,000
Ford Heavy Trucks	60,000	50,000	40,000	30,000	20,000
Chrysler Heavy Trucks	40,000	30,000	20,000	10,000	0
GM Heavy Trucks	20,000	10,000	0	0	0
Top Foreign Truck Producers (1000s)					
Isuzu Trucks	100,000	90,000	80,000	70,000	60,000
Volvo Trucks	80,000	70,000	60,000	50,000	40,000
Mercedes Trucks	60,000	50,000	40,000	30,000	20,000
Scania Trucks	40,000	30,000	20,000	10,000	0
DAF Trucks	20,000	10,000	0	0	0
Top Domestic Light Truck Producers (1000s)					
Chrysler Light Trucks	100,000	90,000	80,000	70,000	60,000
Ford Light Trucks	80,000	70,000	60,000	50,000	40,000
GM Light Trucks	60,000	50,000	40,000	30,000	20,000
Chrysler Heavy Trucks	40,000	30,000	20,000	10,000	0
Ford Heavy Trucks	20,000	10,000	0	0	0
GM Heavy Trucks	10,000	0	0	0	0
Top Foreign Light Truck Producers (1000s)					
Isuzu Light Trucks	100,000	90,000	80,000	70,000	60,000
Volvo Light Trucks	80,000	70,000	60,000	50,000	40,000
Mercedes Light Trucks	60,000	50,000	40,000	30,000	20,000
Scania Light Trucks	40,000	30,000	20,000	10,000	0
DAF Light Trucks	20,000	10,000	0	0	0

OTHER UK UNIT TRUSTS

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● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 673 4378 for more details.

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 673 4378 for more details.

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Fidelity Money Funds

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BC Asset Management

© Grafton Inc. Manufactured in (Singapore) Ltd

Harper International Ed Macanuary (Ireland)

1994	1993	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928	1927	1926	1925	1924	1923	1922	1921	1920	1919	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	1908	1907	1906	1905	1904	1903	1902	1901	1900	1899	1898	1897	1896	1895	1894	1893	1892	1891	1890	1889	1888	1887	1886	1885	1884	1883	1882	1881	1880	1879	1878	1877	1876	1875	1874	1873	1872	1871	1870	1869	1868	1867	1866	1865	1864	1863	1862	1861	1860	1859	1858	1857	1856	1855	1854	1853	1852	1851	1850	1849	1848	1847	1846	1845	1844	1843	1842	1841	1840	1839	1838	1837	1836	1835	1834	1833	1832	1831	1830	1829	1828	1827	1826	1825	1824	1823	1822	1821	1820	1819	1818	1817	1816	1815	1814	1813	1812	1811	1810	1809	1808	1807	1806	1805	1804	1803	1802	1801	1800	1799	1798	1797	1796	1795	1794	1793	1792	1791	1790	1789	1788	1787	1786	1785	1784	1783	1782	1781	1780	1779	1778	1777	1776	1775	1774	1773	1772	1771	1770	1769	1768	1767	1766	1765	1764	1763	1762	1761	1760	1759	1758	1757	1756	1755	1754	1753	1752	1751	1750	1749	1748	1747	1746	1745	1744	1743	1742	1741	1740	1739	1738	1737	1736	1735	1734	1733	1732	1731	1730	1729	1728	1727	1726	1725	1724	1723	1722	1721	1720	1719	1718	1717	1716	1715	1714	1713	1712	1711	1710	1709	1708	1707	1706	1705	1704	1703	1702	1701	1700	1699	1698	1697	1696	1695	1694	1693	1692	1691	1690	1689	1688	1687	1686	1685	1684	1683	1682	1681	1680	1679	1678	1677	1676	1675	1674	1673	1672	1671	1670	1669	1668	1667	1666	1665	1664	1663	1662	1661	1660	1659	1658	1657	1656	1655	1654	1653	1652	1651	1650	1649	1648	1647	1646	1645	1644	1643	1642	1641	1640	1639	1638	1637	1636	1635	1634	1633	1632	1631	1630	1629	1628	1627	1626	1625	1624	1623	1622	1621	1620	1619	1618	1617	1616	1615	1614	1613	1612	1611	1610	1609	1608	1607	1606	1605	1604	1603	1602	1601	1600	1599	1598	1597	1596	1595	1594	1593	1592	1591	1590	1589	1588	1587
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GAM Tokyo Acc.	189.26	
GAM Total Bond Off Acc.	107.92	
GAM Total Bond Off Acc.	110.79	
GAM Universal Off Acc.	109.79	

[illegible]

EURO Small Con A	1997	22.27	0.00
EURO Small Con B	1997	22.28	0.00
EURO Small Con B	1997	22.27	0.00

[illegible]

3 Small Company	E-	1.0536	(MRO) 2.18
Atlantic International Fund Plc			
1000 Shares			

[illegible]

IRELAND (REGULATED)(¹²⁴)

[illegible]

Money Fd - Sterling	0.22	2.53	0.57
Money Fd - US Dollar	0.22	2.53	0.57
Fd - Managed \$	0.22	2.53	0.57
Fd - Managed \$	0.22	2.53	0.57

General Incineration	0.0000	2.00
Washing Silica Fd.	0.0000	1.25
Aluminum Fund	0.0000	0.50
Coating Bones Fd.	0.0000	0.80
Co Bond Fund	1.2730	0.00
Co Bond Fund	1.091	6.00
Co Bond Fund	1.284	7.87
Co Bond Fund	1.013	9.04
Co Bond Fund	1.008	2.04
Co Bond Fund	10.51	4.94
Co Bond Fund	5.730	7.88
Co Bond Fund	5.714	3.98
Co Bond Fund	0.0000	5.71
Co Bond Fund	0.0000	3.91
Co Bond Fund	1.000	1.00

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CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGE

Confidence data hit US dollar

THE US dollar fell briefly against a generally weaker D-Mark yesterday as the latest consumer survey showed that confidence in the economy had dropped, writes Peter John.

The correction marked the end of a one-week run which saw the US currency record a gain of some 7 pence against the D-Mark.

Profit-taking in Tokyo on Monday night had already brought the dollar back from its highs against the D-Mark. Then, the latest consumer confidence index showed a fall to 59.4 per cent in October from 62.6 per cent in September against expectations of a rise.

The dollar slid a penny against the D-Mark but rallied later to close at DM1.6810, up from DM1.6735 previously.

By contrast, the Canadian dollar was down more than two cents against the US currency at one stage. Dealers said the Bank of Canada was intervening to dampen volatility in the Canadian currency as it was announced that the Conservative party had been trounced by the Liberals in the country's general elections.

News that the Bloc Quebecois had become the leading opposition party revived concern of a resurgence of separatism.

£ IN NEW YORK

	Oct 26	Oct 27	Previous
6 month	1.4780-1.4790	1.4780	1.4780
1 month	1.4770-1.4780	1.4770	1.4770
3 month	1.4760-1.4770	1.4760	1.4760
12 month	1.4750-1.4760	1.4750	1.4750

Percent premiums and discounts apply to the US dollar.

STERLING INDEX

	Oct 26	Oct 27	Previous
5.00	100.00	100.00	100.00
10.00	100.00	100.00	100.00
15.00	100.00	100.00	100.00
20.00	100.00	100.00	100.00
25.00	100.00	100.00	100.00
30.00	100.00	100.00	100.00
35.00	100.00	100.00	100.00
40.00	100.00	100.00	100.00

CURRENCY RATES

	Oct 26	Oct 27	Previous
US dollar	1.4780	1.4780	1.4780
Japanese yen	100.00	100.00	100.00
Swiss franc	1.4780	1.4780	1.4780
West German mark	1.4780	1.4780	1.4780
French franc	1.4780	1.4780	1.4780
Italian lira	1.4780	1.4780	1.4780
Spanish peseta	1.4780	1.4780	1.4780
Portuguese escudo	1.4780	1.4780	1.4780
Belgian franc	1.4780	1.4780	1.4780
Dutch guilder	1.4780	1.4780	1.4780
Irish punt	1.4780	1.4780	1.4780
Scottish pound	1.4780	1.4780	1.4780
Welsh pound	1.4780	1.4780	1.4780
Manx pound	1.4780	1.4780	1.4780
Channel Islands pound	1.4780	1.4780	1.4780
Jersey pound	1.4780	1.4780	1.4780
Guernsey pound	1.4780	1.4780	1.4780
Isle of Man pound	1.4780	1.4780	1.4780
Hebrew sheqel	1.4780	1.4780	1.4780
Israeli new sheqel	1.4780	1.4780	1.4780
South African rand	1.4780	1.4780	1.4780
Kenyan shilling	1.4780	1.4780	1.4780
Ugandan shilling	1.4780	1.4780	1.4780
Tanzanian shilling	1.4780	1.4780	1.4780
Malawian kwacha	1.4780	1.4780	1.4780
Zimbabwean dollar	1.4780	1.4780	1.4780
Botswana pula	1.4780	1.4780	1.4780
Lesotho loti	1.4780	1.4780	1.4780
Namibian dollar	1.4780	1.4780	1.4780
South West African rand	1.4780	1.4780	1.4780
Angolan kwanza	1.4780	1.4780	1.4780
Mozambican metical	1.4780	1.4780	1.4780
Swazi lilangeni	1.4780	1.4780	1.4780
Botswana pula	1.4780	1.4780	1.4780
Lesotho loti	1.4780	1.4780	1.4780
Namibian dollar	1.4780	1.4780	1.4780
South West African rand	1.4780	1.4780	1.4780
Angolan kwanza	1.4780	1.4780	1.4780
Mozambican metical	1.4780	1.4780	1.4780
Swazi lilangeni	1.4780	1.4780	1.4780

Bank rates are quoted on a bank discount basis.

Percent premiums and discounts apply to the US dollar.

At 300 pence for Oct 26.

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ism. There were also misgivings about the Liberal Party's economic programme. The Canadian dollar fell to C\$1.3260 to the US dollar at one stage and closed a cent lower at C\$1.3250.

The pound retreated from a Monday night gain against the D-Mark as investors took early profits. It fell further as the latest Confederation of British Industry quarterly industrial trends survey showed manufacturers' orders and output were flat in the past four months and export orders had fallen back.

Sterling closed unchanged against the D-Mark at DM2.4875 while it fell against the dollar to \$1.4795 from \$1.4880.

The D-Mark continued easier against the British pound, down from DM2.4875 to DM2.4850. The D-Mark continued easier against the British pound, down from DM2.4875 to DM2.4850.

Portugal cut its nine-day repo rate by half a point to 10.375 per cent and the escudo eased to Esc103.62 to the D-Mark from Esc103.61.

Norway's central bank cut its rate for overnight deposits to 5 per cent from 5.5 per cent and the krona rose to Nkr4.363 to the D-Mark from Nkr4.362.

Sweden's central bank cut its rate for overnight deposits to 5 per cent from 5.5 per cent and the krona rose to Nkr4.363 to the D-Mark from Nkr4.362.

Denmark's central bank cut its rate for overnight deposits to 5 per cent from 5.5 per cent and the krona rose to Nkr4.363 to the D-Mark from Nkr4.362.

Finland's central bank cut its rate for overnight deposits to 5 per cent from 5.5 per cent and the krona rose to Nkr4.363 to the D-Mark from Nkr4.362.

Iceland's central bank cut its rate for overnight deposits to 5 per cent from 5.5 per cent and the krona rose to Nkr4.363 to the D-Mark from Nkr4.362.

Lithuania's central bank cut its rate for overnight deposits to 5 per cent from 5.5 per cent and the krona rose to Nkr4.363 to the D-Mark from Nkr4.362.

Latvia's central bank cut its rate for overnight deposits to 5 per cent from 5.5 per cent and the krona rose to Nkr4.363 to the D-Mark from Nkr4.362.

Estonia's central bank cut its rate for overnight deposits to 5 per cent from 5.5 per cent and the krona rose to Nkr4.363 to the D-Mark from Nkr4.362.

Belarus's central bank cut its rate for overnight deposits to 5 per cent from 5.5 per cent and the krona rose to Nkr4.363 to the D-Mark from Nkr4.362.

Ukraine's central bank cut its rate for overnight deposits to 5 per cent from 5.5 per cent and the krona rose to Nkr4.363 to the D-Mark from Nkr4.362.

Moldova's central bank cut its rate for overnight deposits to 5 per cent from 5.5 per cent and the krona rose to Nkr4.363 to the D-Mark from Nkr4.362.

Georgia's central bank cut its rate for overnight deposits to 5 per cent from 5.5 per cent and the krona rose to Nkr4.363 to the D-Mark from Nkr4.362.

Armenia's central bank cut its rate for overnight deposits to 5 per cent from 5.5 per cent and the krona rose to Nkr4.363 to the D-Mark from Nkr4.362.

Azerbaijan's central bank cut its rate for overnight deposits to 5 per cent from 5.5 per cent and the krona rose to Nkr4.363 to the D-Mark from Nkr4.362.

Kazakhstan's central bank cut its rate for overnight deposits to 5 per cent from 5.5 per cent and the krona rose to Nkr4.363 to the D-Mark from Nkr4.362.

Kyrgyzstan's central bank cut its rate for overnight deposits to 5 per cent from 5.5 per cent and the krona rose to Nkr4.363 to the D-Mark from Nkr4.362.

Tajikistan's central bank cut its rate for overnight deposits to 5 per cent from 5.5 per cent and the krona rose to Nkr4.363 to the D-Mark from Nkr4.362.

Uzbekistan's central bank cut its rate for overnight deposits to 5 per cent from 5.5 per cent and the krona rose to Nkr4.363 to the D-Mark from Nkr4.362.

Turkmenistan's central bank cut its rate for overnight deposits to 5 per cent from 5.5 per cent and the krona rose to Nkr4.363 to the D-Mark from Nkr4.362.

Yemen's central bank cut its rate for overnight deposits to 5 per cent from 5.5 per cent and the krona rose to Nkr4.363 to the D-Mark from Nkr4.362.

Oman's central bank cut its rate for overnight deposits to 5 per cent from 5.5 per cent and the krona rose to Nkr4.363 to the D-Mark from Nkr4.362.

Qatar's central bank cut its rate for overnight deposits to 5 per cent from 5.5 per cent and the krona rose to Nkr4.363 to the D-Mark from Nkr4.362.

Bahrain's central bank cut its rate for overnight deposits to 5 per cent from 5.5 per cent and the krona rose to Nkr4.363 to the D-Mark from Nkr4.362.

Kuwait's central bank cut its rate for overnight deposits to 5 per cent from 5.5 per cent and the krona rose to Nkr4.363 to the D-Mark from Nkr4.362.

Saudi Arabia's central bank cut its rate for overnight deposits to 5 per cent from 5.5 per cent and the krona rose to Nkr4.363 to the D-Mark from Nkr4.362.

UAE's central bank cut its rate for overnight deposits to 5 per cent from 5.5 per cent and the krona rose to Nkr4.363 to the D-Mark from Nkr4.362.

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Kuwait's central bank cut its rate for overnight deposits to 5 per cent from 5.5 per cent and the krona rose to Nkr4.363 to the D-Mark from Nkr4.362.

Bundesbank repo. It slipped a cent to FF3.48 against the French franc and fell against the Greek drachma and Norwegian krone in spite of interest rate cuts in Greece and Norway.

Greece cut its discount rate by half a point to 21.5 per cent and its Lombard rate by a percentage point to 25.5 per cent. Foreign investors had sold drachmas on worries over the new socialist administration but the weekend policy statement was mild and investors decided to readjust their positions. The drachma closed at Dr143.55 to the D-Mark against Dr143.54 previously.

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Bahrain's central bank cut its rate for overnight deposits to 5 per cent from 5.5 per cent and the krona rose to Nkr4.363 to the

WORLD STOCK MARKETS

Table with 3 columns: Stock Name, Price, and Change. Includes sections for ASIA, EUROPE, and AMERICA.

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Far more than finance.

4 pm close October 26

Continued on next page

AMERICA

Dow hit by consumer data and profit-taking

Wall Street

PROFIT-TAKING and news of weakening consumer confidence sent US share prices lower across the board yesterday morning, bringing blue-chip and cyclical stocks down from their record highs, writes Patrick Harverson in New York.

At 1 pm, the Dow Jones Industrial Average was down 15.65 at 3,657.96. The more broadly based Standard & Poor's 500 was down 1.06 at 463.14, while the Amex composite was 2.05 lower at 473.53, and the Nasdaq composite down 5.45 at 784.30. NYSE volume was 158m shares by 1 pm.

Although prices firmed at the opening, after Monday's gains when the Dow rose to a new all-time high, it was clear that market participants had decided to take some quick profits. Consequently, an early 10-point gain turned into a 10-point loss within the first hour of trading.

Profit-taking was not confined to the big blue-chip, industrial and cyclical stocks which lifted the Dow into

record territory on Monday; secondary stocks posted their second straight day of big declines.

The high level of share prices and the poor state of economic fundamentals continue to worry some investors. Concern about the economy will only have deepened yesterday after the Conference Board announced that its index of consumer confidence had dropped in October to 59.4, down from 63.8 in the previous month.

The news lifted bond prices for the first time in three days. In the process, the yield on the 30-year bond fell back under 6 per cent - but depressed equity market sentiment.

Among individual stocks, IBM rose \$1 to \$45 in early trading after the troubled computer giant unveiled a third quarter loss of 12 cents a share, smaller than analysts had expected. The stock, however, could not hang on to its early gains, and by early afternoon IBM was down \$1 at \$44 in volume of 1.5m shares.

Leading Dow stocks which were in good form on Monday wilted amid profit-taking. East-

man Kodak fell 1% to \$58, Allied-Signal eased 1/4% to \$72.75, Aluminum Company of America slipped 1/4% to \$70 and Minnesota Mining & Manufacturing eased 1/4% to \$105.

RJR Nabisco fell 1/4% to \$54 after the tobacco and foods company unveiled third quarter net income, sharply lower than a year ago because of the cigarette price war.

Pharmaceutical Resources climbed 3/4% to \$16 1/2 in heavy trading after the Food and Drug Administration said it would review the company's application for generic drugs, a decision that opens the way for the company to seek new product approvals.

National Health Laboratories slumped 1 1/2% to \$13 1/2 in volume of 1.7m shares after the company issued a warning about lower third quarter revenues.

Canada

TORONTO edged ahead in cautious midday trading as investors awaited the first moves of the new Liberal government.

The TSE 300 composite index moved up 8.15 to 4,183.41 in turnover of C\$298.89m.

EUROPE

Continent loses ground in late trading

BORSES mostly opened higher on Wall Street's overnight gains and a higher dollar, but German stocks were an exception and the rest lost ground later in the day, writes Our Markets Staff.

FRANKFURT extended Monday's post-bourse losses, the DAX index dropping 16.57 to 2,056.72 on the session and the blue-chip DAX losing another 9.98 to 2,048.74 by the end of the afternoon. Turnover rose from DM5.8m to DM3.8m.

National inflation figures were mixed and the bond market was a little disappointed. Broadly-based profit-taking was seen in financials, where falls of 1 per cent were commonplace and Bayernhypo dropped DM10.50 to DM47.7. However, Deutsche Pfandbriefbank (Dpfb) climbed DM21 to DM831 after the bank reported a 23 per cent profit rise in the first nine months of this year.

Some of the second line cyclical posted gains. In the automotive sector, Continental and Varta, tyre and battery makers respectively, rose DM5 to DM243 and DM5 to DM326,

while Porsche put on another DM19 to DM794.

The apparent rationale for these upgrades, in a rising US dollar and prospectively better profit margins, was not applied to front-line cyclical like BMW, which fell DM6.50 on the session to DM24.50, and Daimler, DM5.50 lower at DM749.50. Ms Barbara Altmann, of B Metzler in Frankfurt, said that the gains lower down the size scale were dealer-inspired.

Trading in PARIS was suspended twice during the session because of technical problems, following a similar difficulty on Monday. The CAC-40 index finished down 17.36 or 0.8 per cent at 2,210.37.

Thomson-CSF lost FF3.50 to FF164.50 as some negative brokers' comments on the stock surfaced. One of them, from James Capel, forecast that 1993 profits were expected to fall to their lowest level since 1984, and would continue to remain under pressure in 1994 and 1995.

Outside the CAC-40, Synthelabo, which on Monday shed 7.4 per cent, eased a further FF6.60 to FF221.50 following

FT-SE Actuaries Share Indices

October 26		THE EUROPEAN SERIES									
Hourly changes		Open	10.30	11.00	12.00	13.00	14.00	15.00	Close		
FT-SE Eurotrack 100		1284.28	1283.53	1283.25	1282.07	1281.94	1279.28	1277.15	1277.10		
FT-SE Eurotrack 200		1447.44	1446.87	1446.32	1443.20	1442.21	1438.09	1436.29	1437.92		

the withdrawal by the French regulator of the licence for its anti-anxiety drug. Mr Mark Tracey at Goldman Sachs commented that this action confirmed his view of the company's weak product mix and saw the shares continuing to underperform the market.

L'Oreal, the parent group, shed FF19 to FF71.156. ZURICH forgot about following Frankfurt, and rebounded in active trading on the firm dollar and lower interest rates. While it closed off its peaks, as both the dollar and Wall Street weakened, the SMI index rose 15.3 to 2,700.2.

Selected insurance and chemical stocks led the advance, with strong interest

also seen in dollar-sensitive shares such as Surveillance and Nestlé. Among chemicals, Sandoz bearers rose Sfr60 to Sfr3,780; in the insurance sector, Winterthur rose Sfr14 to Sfr794 and Swiss Re by Sfr40 to Sfr3,940, although Zurich Insurance fell Sfr13 to Sfr1,340.

AMSTERDAM lost pace towards the close as the dollar softened and the CBS Tendency index slipped 0.7 to 135.8, having seen a day's high of 137.6.

Unilever added just 10 cents to Ft 213.30, down from a day's high of Ft 215.40. James Capel has upgraded the stock to a 'buy' partly on the basis that the group is well placed to benefit from economic recovery

and forecasts earnings growth of up to 11 per cent over the next three years.

Philips, after hitting a new year's high at mid-session of Ft 40.00, eased back to close off 10 cents at Ft 39.20.

MILAN weakened on a late round of selling. The Comit index lost 6.88 to 535.53. Pressure was seen continuing in Fiat shares which ended off L144 or 3.8 per cent at L3,706. The telecommunications sector also weakened with Stet down L113 at L3,529. Stet yesterday announced the sale of its 20 per cent stake in a Dutch group.

ATHENS added weakness in construction stocks to the pressure on bank shares which drove the market down on Monday, and the general index closed another 9.22, or 1.1 per cent down at 836.75. The building sector declined on news that the Greek construction company, AEGEK, would be introduced to the exchange in November.

Written and edited by William Cochrane and John PIR.

ASIA PACIFIC

JR East flotation leaves Nikkei with 1.4% decline

Tokyo

STOCK PRICES lost ground as investors liquidated holdings to buy East Japan Railway shares which were floated yesterday, writes Emiko Terazono in Tokyo.

The 225-issue Nikkei average declined 265.73, or 1.4 per cent, to 20,023.60.

Traders said overall trading was slack as investors focused on JR East shares, which were not traded until the end of the day because of a lack of sellers. The Nikkei rose to the day's high of 20,344.53 in the morning, and fell to 20,019.90 during the afternoon.

Mr Yasuo Ueki at Nikko Securities said share prices had declined as the rush of buy orders for JR East had clogged up the computer at the Tokyo stock exchange, making large programme buying of shares impossible. Meanwhile, small-lot selling by dealers on the final trading day for October settlements also depressed prices.

Volume was 339.5m shares, against 312m. Falls overwhelmed rises by 967 to 108, with 107 issues unchanged. The Topix index of all first section stocks shed 24.13 to 1,845.31, and in London the FTSE 100 index eased 3.53 to 1,295.28.

Due to the lack of sellers, buyers raised their bids throughout the day for JR East, which was publicly offered in August at ¥300,000. The stock finally traded at ¥600,000 at the session's end.

However, in spite of previous hopes that trading in JR East would boost overall activity, stock prices lost ground, led by a fall in large-capital issues. Nippon Steel, the most active stock of the day, fell ¥14 to ¥335 and Mitsubishi Heavy Industries declined ¥8 to ¥683.

Traders still hope that investors who had bought JR East at ¥300,000 will put their profits back into the stock market. "Profits held by individual investors who bought the stock at ¥300,000 are estimated to total ¥300bn to ¥400bn," said one Japanese broker.

Nippon Telegraph and Telephone, which was sold by investors wanting to buy JR East shares, retreated ¥30,000 to ¥843,000.

Kajima, the construction company, lost ¥2 at ¥859 after public prosecutors arrested the company's vice-president for allegedly bribing politicians.

In Osaka, the OSE average slipped 239.35 to 21,982.02 in volume of 20.1m shares. The index dropped below the 22,000 line for the first time since July 28 on small-lot selling.

Roundup

MOVES in politically sensitive markets enlivened the region.

NEW ZEALAND, where an election is due to be held on Saturday week, saw a 23-cent rise to NZ\$4.23 in market leader Fletcher Challenge, and a new four-year high in the NZSE-40 index, which closed 14.9 stronger at 2,113.01.

The New Zealand government has a 6.7 per cent holding in Fletcher, which recently announced moves to simplify its structure by shaving off forest and rural servicing assets into separate companies. The 3.2m shares traded in the stock accounted for a big slice of the market's NZ\$37.5m turnover.

KARACHI closed higher for the 12th consecutive session, the KSE index rising 20.73 to a 1993 peak of 1,522.17. The bullish trend reflects the victory of Mr Benazir Bhutto's PPP (Pakistan People's Party) in the October 6 elections.

BOMBAY dropped as fears over a political crisis in the

northern state of Kashmir undermined sentiment. The SSE index closed 40.8 lower at 2,700.3. In COLOMBO, however, foreign buying of Sri Lankan stocks took the all-share index up 14.57 to 788.93.

HONG KONG's Hang Seng index rose 58 points in morning trade as bargain hunters snapped up shares, and then fell back on profit-taking before ending 23.40 ahead at 8,790.90. Brokers said smaller companies were the main focus of trading, with China-linked shares holding up well. Turnover eased from HK\$5.61bn to HK\$5.02bn.

AUSTRALIA rebounded from morning lows, bargain hunters lifting the All Ordinaries index a net 8.8 to 4,053.7, after touching 2,039.8. Turnover was A\$10.2m. Heavyweights put in most of the recovery, BHP rising 22 cents to A\$17.16 and CRA 14 cents to A\$15.50.

MANILA's composite index advanced 13.35 to 2,243.55 in spite of an overnight correction in Philippine Lenta Distance Telephone, which dipped 1/4% to \$61 on Wall Street.

TAIWAN, where plans to ease curbs on foreign investment in the stock market were announced yesterday, fell on profit-taking, the weighted index slipping 8.92 to 4,091.17.

BANGKOK got the jitters in the morning following the dismissal of Mr Sawasdi Amornvith, the national police chief, but the SET index came back from a low of 1,135.87, down 13.87, to finish 8.74 higher on balance at 1,158.28 in moderate turnover of B\$2.11bn.

It could hardly be more ironic. In the month when Sweden's blue collar trade union has said that the country is in a depression and not in a recession, and the government has predicted the worst economic performance since the Second World War for this year, shares have broken through the all-time high reached in August 1992.

At yesterday's close the Affarsvärlden general index showed a gain on the year to date of more than 50 per cent, making the Stockholm stock exchange one of Europe's strongest performers.

A combination of falling interest rates, corporate recovery and record foreign buying have created the conditions for the rally. Interest rates remain on a downward trend, as the central bank demonstrated last week when it cut its key marginal rate further to 7.75 per cent.

At the same time, the weaker krona and massive corporate restructuring have lifted the big multinationals much more competitively, causing exports and profits to recover strongly in spite of weak demand in key markets.

Sweden's finance minister said last week that the economy had reached bottom, echoing common expectation that economic growth will resume next year after three consecutive years of contraction. This has encouraged investors, who are getting ever less from keeping money in the bank, to buy now for the recovery.

Adjusted for inflation, shares are still well below their former peak in 1989. Strip out Astra and Ericsson, the stock market's star turns, and the performance is still less impressive. These two companies alone account for some

34 per cent of total market capitalisation.

Ericsson has had a phenomenal year, rising from a low point of SKr172 in January to SKr444 yesterday. At these levels a huge recovery in profits is already being discounted; what seems to be driving the share price now is expectations of a very heavy inflow of orders in a booming world telecommunications market.

Astra has performed less spectacularly, but its shares have still risen from SKr148 to SKr174, helped by very strong sales growth for key drugs. These two companies apart, it has been the banking sector which has put in the best performance, on the strengthening belief that the worst of the Swedish banking crisis is now over. The bank and insurance index is up nearly 280 per cent since the start of the year.

Most analysts believe that the market will climb as interest rates come down and evidence of economic recovery becomes more visible. They point to a series of corporate tax reforms as another factor



which should help to sustain upward momentum. The reforms, to take effect from January, will scrap taxes on dividends from Swedish companies for domestic residents, and halve the capital gains tax on equities to 12.5 per cent.

The single most significant development on the stock exchange over the last 12 months has been the surge in overseas buying, which has lifted foreign share ownership to around 24 per cent from just 10 per cent at the end of 1991. International institutions have been attracted not just by the prospect of profits, but by a big increase in market liquidity.

Foreigners now hold around 44 per cent of Ericsson, compared with 27 per cent at the end of last year, and some 38 per cent of Astra. Such levels of ownership make the stock market far more sensitive to the behaviour of international investors. The obvious danger is that the market will suffer a setback if foreigners start to lock in profits.

There are other reasons to be wary, according to Mr David Longmuir, a Scandinavian specialist with James Capel in London. One worry is how much scope the government has for further deep cuts in interest rates. "The budget deficit is an enormous cloud on the horizon which will not go away," he states.

Another concern is the recent spate of rights offers and the prospect of new privatisation issues. These are making heavy demands on institutional funds and could stem the buying required to drive share prices higher.



Thai Central Chemical Public Company Limited

(Incorporated and registered as a public limited company in Thailand under the Public Limited Company Act B.E. 2535, registration no. Bor Mor Jar 101)

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3 1/2 per cent. Convertible Bonds due 2003

Issue Price: 100 per cent.

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Nikko Europe Plc

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Cazenove & Co.

CS First Boston

Dresdner Bank

Lehman Brothers

Sumitomo Trust International plc

Yamaichi International (Europe) Limited

October, 1993

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	MONDAY OCTOBER 25 1993										FRIDAY OCTOBER 22 1993										DOLLAR INDEX											
	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield
Australia (69)	164.56	-0.6	164.22	105.92	134.49	135.58	-0.5	3.36	155.45	156.46	106.32	135.37	154.41	155.77	117.39	121.51	178.89	-0.2	178.45	122.56	155.82	150.02	-0.5	1.02	179.28	180.45	122.62	156.13	155.75	184.47	131.16	151.48
Austria (17)	178.89	-0.2	178.45	122.56	155.82	150.02	-0.5	1.02	179.28	180.45	122.62	156.13	155.75	184.47	131.16	151.48	150.39	+0.0	150.05	103.04	130.85	134.63	+0.2	4.28	130.38	131.94	102.83	130.94	134.42	156.78	131.19	136.71
Canada (107)	131.00	-0.4	130.70	86.78	113.97	124.22	+0.0	2.69	131.49	132.34	86.93	114.49	124.20	131.49	111.41	115.86	238.54	+0.4	238.00	183.46	207.55	218.43	+0.5	1.04	237.71	239.26	182.58	207.00	217.26	239.12	185.11	186.57
Denmark (22)	125.03	+0.4	124.38	85.71	108.33	150.72	+0.1	0.69	124.63	125.45	85.25	108.54	150.53	125.05	85.50	84.48	125.03	+0.4	124.38	85.71	108.33	150.72	+0.1	0.69	124.63	125.45	85.25	108.54	150.53	125.05	85.50	84.48
Finland (23)	171.85	+0.1	171.45	117.74	149.50	157.48	+0.0	0.95	171.71	172.82	117.43	149.51	157.57	173.05	142.72	149.30	171.85	+0.1	171.45	117.74	149.50	157.48	+0.0	0.95	171.71	172.82	117.43	149.51	157.57	173.05	142.72	149.30
France (89)	134.82	+0.4	134.51	82.29	117.30	117.30	+0.3	1.61	134.23	135.11	81.82	116.89	116.89	136.13	101.59	109.93	134.82	+0.4	134.51	82.29	117.30	117.30	+0.3	1.61	134.23	135.11	81.82	116.89	116.89	136.13	101.59	109.93
Germany (80)	348.79	+0.7	348.98	238.99	304.34	347.09	+0.8	2.99	347.31	348.58	237.54	302.48	345.02	345.02	337.10	218.22	348.79	+0.7	348.98	238.99	304.34	347.09	+0.8	2.99	347.31	348.58	237.54	302.48	345.02	345.02	337.10	218.22
Greece (24)	124.50	+0.1	124.16	80.87	149.91	172.82	+0.0	0.75	123.73	124.47	81.78	148.50	150.05	172.62	174.04	128.28	124.50	+0.1	124.16	80.87	149.91	172.82	+0.0	0.75	123.73	124.47	81.78	148.50	150.05	172.62	174.04	128.28
Ireland (14)	152.91	-0.5	152.56	89.56	61.81	86.15	-0.6	2.06	151.49	152.41	89.05	61.55	86.15	152.91	-0.5	152.56	152.91	-0.5	152.56	89.56	61.81	86.15	-0.6	2.06	151.49	152.41	89.05	61.55	86.15	152.91	-0.5	152.56
Italy (70)	129.40	+0.4	129.16	108.07	149.85	105.82	+0.0	3.28	129.30	129.47	108.24	150.54	105.24	105.24	105.24	105.24	129.40	+0.4	129.16	108.07	149.85	105.82	+0.0	3.28	129.30	129.47	108.24	150.54	105.24	105.24	105.24	105.24
Japan (106)	164.56	-0.6	164.22	105.92	134.49	135.58	-0.5	3.36	155.45	156.46	106.32	135.37	154.41	155.77	117.39	121.51	164.56	-0.6	164.22	105.92	134.49	135.58	-0.5	3.36	155.45	156.46	106.32	135.37	154.41	155.77	117.39	121.51
Malaysia (19)	460.83	+0.4	459.57	315.51	400.76	452.20	+0.4	1.52	462.95	465.68	316.42	402.88	453.83	462.65	251.86	262.99	460.83	+0.4	459.57	315.51	400.76	452.20	+0.4	1.52	462.95	465.68	316.42	402.88	453.83	462.65	251.86	262.99
Mexico (98)	1863.50	+0.9	1869.22	1278.90	1821.34	1842.58	+0.9	0.78	1864.96	1869.98	1286.23	1808.38	1863.50	1863.50	1410.30	1432.99	1863.50	+0.9	1869.22	1278.90	1821.34	1842.58	+0.9	0.78	1864.96	1869.98	1286.23	1808.38	1863.50	1863.50	1410.30	1432.99
Netherlands (23)	161.50	-0.1	161.21	89.31	120.31	161.50	-0.1	1.85	161.41	161.50	89.26	120.29	161.50	161.50	100.91	100.91	161.50	-0.1	161.21	89.31	120.31	161.50	-0.1	1.85	161.41	161.50	89.26	120.29	161.50	161.50	100.91	100.91
New Zealand (13)	65.56	-0.2	65.41	44.92	57.04	62.57	+0.0	3.65	65.68	66.11	44.93	57.20	62.57	65.68	45.00	45.00	65.56	-0.2	65.41	44.92	57.04	62.57	+0.0	3.65	65.68	66.11	44.93	57.20	62.57	65.68	45.00	45.00
Norway (22)	183.38	+0.2	182.96	125.65	159.55	181.32	+0.1	1.41	182.98	184.11	125.12	159.35	181.18	185.10	137.71	140.04	183.38	+0.2	182.96	125.65	159.55	181.32	+0.1	1.41	182.98	184.11	125.12	159.35	181.18	185.10	137.71	140.04
Poland (22)	327.49	+0.2	326.74	224.40	284.93	239.94	+0.0	1.43	326.85	328.06	223.61	284.26	239.54	327.49	+0.2	326.74	327.49	+0.2	326.74	224.40	284.93	239.94	+0.0	1.43	326.85	328.06	223.61	284.26	239.54	327.49	+0.2	326.74
Portugal (15)	144.41	-0.2	144.20	71.72	107.78	168.15	-0.5	0.91	144.11	144.20	71.61	107.61	168.15	144.41	-0.2	144.20	144.41	-0.2	144.20	71.72	107.78	168.15	-0.5	0.91	144.11	144.20	71.61	107.61	168.15	144.41	-0.2	144.20
Spain (42)	344.49	+0.5	344.06	99.46	125.64	145.44	+0.6	0.43	343.54	344.26	99.34	125.48	145.47	344.49	+0.5	344.06	344.49	+0.5	344.06	99.46	125.64	145.44	+0.6	0.43	343.54	344.26	99.34	125.48	145.47	344.49	+0.5	344.06
Sweden (33)	201.96	+0.1	201.49	138.39	178.72	241.80	+0.0	1.40	204.77	206.10	140.05	178.22	241.44	209.82	148.70	150.05	201.96	+0.1	201.49	138.39	178.72	241.80	+0.0	1.40	204.77	206.10	140.05	178.22	241.44	209.82	148.70	150.05
Switzerland (23)	143.22	-0.2	143.02	69.96	125.96	156.19	-0.2	1.85	143.11	143.22	69.86	125.93	156.14	143.22	-0.2	143.02	143.22	-0.2	143.02	69.96	125.96	156.19	-0.2	1.85	143.11	143.22	69.86	125.93	156.14	143.22	143.22	143.22
United Kingdom (217)	191.97	+0.5	191.53	131.53	167.01	191.53	+0.4	3.81	191.06	192.31	130.67	168.37	192.31	193.82	162.00	167.56	191.97	+0.5	191.53	131.53	167.01	191.53	+0.4	3.81	191.06	192.31	130.67	168.37	192.31	193.82	162.00	167.56
USA (518)	189.20	+0.1	188.77	129.65	164.82	189.20	+0.1	2.92	188.93	190.16	129.25	164.54	188.93	189.20	+0.1	188.77	189.20	+0.1	188.77	129.65	164.82	189.20	+0.1	2.92	188.93	190.16	129.25	164.54	188.93	189.20	+0.1	188.77
Europe (749)	162.34	+0.2	161.97	111.24	141.25	156.24	+0.2	2.95	162.07	163.13	110.93	141.15	155.99	162.07	133.99	136.66	162.34	+0.2	161.97	111.24	141.25	156.24	+0.2	2.95	162.07	163.13	110.93	141.15	155.99	162.07	133.99	136.66
Africa (14)	191.58	-0.7	191.14	131.27	166.88	199.64	-0.4	1.23	192.96	194.11	131.91	167.95	200.04	194.54	142.13	148.45	191.58	-0.7	191.14	131.27	166.88	199.64	-0.4	1.23	192.96	194.11	131.91	167.95	200.04	194.54	142.13	148.45
Asia-Pacific (1718)	151.78	+0.7	151.41	101.85	140.75	131.12	+0.2	1.83	151.33	152.38	101.33	140.48	130.84	152.64	117.26	126.67	151.78	+0.7	151.41	101.85	140.75	131.12	+0.2	1.83	151.33	152.38	101.33	140.48	130.84	152.64	117.26	126.67
North America (826)	185.88	+0.1	185.15	127.18	161.49	183.74	+0.1	2.73	185.36	186.56	126.79	161.44	184.51	187.88	171.51	157.38	185.88	+0.1	185.15	127.18	161.49	183.74	+0.1	2.73	185.36	186.56	126.79	161.44	184.51	187.88	171.51	157.38
Europe, Ex. UK (931)	143.19	+0.1	142.95	114.14	124.49	138.77	+0.1	2.07	142.95	143.77	114.07	124.39	138.77	143.19	+0.1	142.95	143.19	+0.1	142.95	114.14	124.49	138.77	+0.1	2.07	142.95	143.77	114.07	124.39	138.77	143.19	+0.1	142.95
Asia-Pacific, Ex. Japan (249)	161.21	+0.1	160.95	101.22	140.75	131.12	+0.2	2.72	160.82	162.21	101.17	140.59	131.12	161.21	+0.1	160.95	161.21	+0.1	160.95	101.22	140.75	131.12	+0.2	2.72	160.82	162.21	101.17	140.59	131.12	161.21	+0.1	160.95
World, Ex. US (1947)	162.31	+0.2	162.03	111.28	141.30	133.21	+0.2	1.86	161.94	162.99	110.96	141.02	132.90	162.31	+0.2	162.03	162.31	+0.2	162.03	111.28	141.30	133.21	+0.2	1.86	161.94	162.99	110.96	141.02	132.90	162.31	+0.2	162.03
World, Ex. US (1949)	162.31	+0.2	162.03	111.28	141.30	133.21	+0.2	1.86	161.97	162.99	110.96	141.02	132.90	162.31	+0.2	162.03	162.31	+0.2	162.03	111.28	141.30	133.21	+0.2	1.86	161.97	162.99	110.96	141.02	132.90	162.31	+0.2	162.03
World, Ex. US, Ex. Japan (2108)	160.82	+0.2	160.51	113.76	157.18	176.16	+0.2	2.78	160.55	161.52	113.26	157.06	176.13	160.82	+0.2	160.51	160.82	+0.2	160.51	113.76	157.18	176.16	+0.2	2.78	160.55	161.52	113.26	157.06	176.13	160.82	+0.2	160.51
World, Ex. Japan (2168)	170.31	+0.2	169.92	116.78	148.19	150.87	+0.2	2.18	169.92	171.00	116.22	147.96	150.36	170.31	+0.2	169.92	170.31	+0.2	169.92	116.78	148.19	150.87	+0.2	2.18	169.92	171.00	116.22	147.96	150.36	170.31	+0.2	169.92